MONEY, EXCHANGE AND BANKING

H. T. EASTON

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AND

BANKING

IN THEIR PRACTICAL, THEORETICAL, AND LEGAL ASPECTS

A COMPLETE MANUAL FOR BANK OFFICIALS, BUSINESS MEN, AND STUDENTS OF COMMERCE

BY

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SECOND EDITION

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PREFACE TO THE SECOND EDITION

Money and Banking are so closely interwoven with the commercial life of a nation that it is essential for every person engaged in business to have some knowledge of the part which they play in it. The present volume is intended to give an account of each of them in a definite and practical form and the author trusts that his work may be found useful to the student, to bank officials, and to the commercial classes generally.

The nature and the use of Money, the mechanism of Exchange, and the development of Banking in various parts of the world—but with special reference to England and the Money Market—are fully explained. But, in addition, the organisation of a bank, the duties of its various officials, and the manner in which the books of a bank are kept and the balance sheet prepared are dealt with, and these form an essential feature of the book.

The legal side of Banking has not been neglected, and all the most important points in connection with bills of exchange, cheques, and promissory notes, as well as the nature of the relationship existing between a banker and his customers, have been carefully noted.

A glossary of terms connected with Banking has also been added.

The author is indebted to many works of reference in the compilation of this volume, and desires to make special mention of the various articles upon Banking and allied subjects in the last edition of the "Encyclopædia Britannica." "The Modern Bank," by Amos K. Fiske, and "National Bank Organisation," by the National City Bank of NewYork, have been largely drawn upon for an account of the American banking system.

The present edition has been carefully revised and brought up to date.

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CHAPTER I

MONEY

THERE is abundance of evidence procurable to establish the fact that in the primitive ages of the world there was no such thing as money in existence, and that when trading did take place between persons, they exchanged their products directly with one another. If a man had in his possession any article which was superfluous, so far as he was concerned, and of which he wished to dispose, his only course was to find some other individual in the same position as himself as far as another article was concerned, and then to negotiate an exchange, if that were possible. Such a transaction was called barter. A proceeding of this kind would not always have been attended with great inconvenience if the various articles to be exchanged had represented an equal amount of labour expended upon their production, or if the desire to possess them had been the same in every individual. But, as is very well known, such was not the case. Things vary in value.

Barter.

And here it is necessary to explain what is meant by value. The value of any article is the amount or quantity of any other article which can be obtained in exchange for it. Thus, if one pound of meat can be exchanged for four pounds of bread, the value of beef as compared with bread is in the ratio of four to one. Similarly the value of bread, beef, or any substance whatever, may be expressed in the terms of some other substance, and the ratio which subsists between them is the statement of their value. In order, therefore, that there may be value, there

Value.

must be a consideration of two things, and the value of each, when they are compared, is the quantity of the other which it will fetch. It is of the utmost importance that value should not be confounded with utility. An article may be useful for many purposes, and its utility may vary at different times. Its utility is something which is inherent in it. But an estimate of its value can only be attained by a comparison with something outside it. One often hears of "intrinsic value." The phrase is meaningless. A thing may be intrinsically useful, or it may possess, as it is sometimes said, intrinsic virtues, but it is as ridiculous to speak of intrinsic value as of intrinsic equality or intrinsic distance.

Difficulties of Barter.

As it is obviously impossible for the value of all things to be expressed by the ratio of one to one, that is, for any one article to be exchanged for any other, or for six articles of one kind to be always exchanged for six of another, it would have been impossible for many transactions to have taken place without some modification of the early system of barter. Suppose, for instance, that a man had an ox which he did not need, and required a knife which was the sole disposable possession of another man, it would be absurd to imagine that any exchange would have taken place between the two unless the desire for the knife on the part of the man who had the ox had been so overpowering that he would have been contented to give almost anything for its possession. Consequently, two men in the position just indicated could not have done any business under the circumstances. Again, other individuals might have desired to exchange commodities, but have been unable to do so on account of the difficulty of arriving at a determination of their value.

Measure of Value.

It was probably the latter of the two above-named states of facts that first led some ingenious person or other to see how much more easily business could be conducted if every article in commerce was measured by some common standard. Amongst the ancient Greeks, for instance, before money was invented, it was a common practice to compare or value everything which was of importance with oxen. This or that thing was worth so many oxen. Homer gives several illustrations cf this method of arriving at the value of different articles. Even a rough and ready method of this kind was infinitely preferable to a pure and simple state of barter. It saved an enormous amount of haggling and bargaining. It is not to be supposed for one moment that oxen were handed over in exchange at any time, or that they served all the purposes of money. But the measurement of value in this way permitted of exchanges being negotiated and carried through which might otherwise have been impossible.

It was a great step to have advanced as far as a measure of value. But the case of the man with the ox and the knife respectively, in the illustration suggested above, would not have been helped forward one jot by the mere comparison of a knife to an ox. It is to be assumed that the one man was as eager to dispose of his ox as the other was to dispose of his knife. In order to do this, seeing that a direct exchange was practically impossible, owing to the difference in value, some medium was required by means of which it could be accomplished. In other words a medium of exchange was necessary. The man with the ox would be willing to part with his animal if he could receive something in addition to the knife, something which represented the difference in value between the ox and the knife, and which would enable him to claim or demand another thing or other things in the future. The something he was to receive would be an acknowledgment of a debt due to him of which he could demand the payment in due course.

Medium of Exchange.

The something that is given to signify the existence of an unliquidated debt, and which can in turn be exchanged for other things, is money. Its two great functions have already been expressed in showing how it came into existence. Money acts as a measure of value and also as a medium of exchange. These two functions must be most carefully borne in mind, as there are so many mistaken ideas as to what money exactly is. Some people confound money and wealth. Except in so far as it has an exchange value, money is not wealth at all. Again, others imagine that there must be enough money in existence to purchase every article in the world, if necessary. This idea is so absurd, upon a moment's consideration, that it calls for no comment at all. There is nothing wonderful in money itself—its wonder and its use consist in the advantages that can be derived from it.

Functions of Money.

It has been stated that when a man takes money in exchange for goods he obtains a commodity either in the shape of silver or gold, which he knows will be accepted for other goods or for services to be rendered to him in the future. Money is, as it were, a certificate showing this right or title. It will be seen, therefore, that there are circumstances, in a high state of civilisation, under which it is possible to conceive of business being carried on without the aid of money. If men could rely implicitly upon one another, and if it was absolutely certain that a right which had been acquired would be generally recognised and its indefinite transfer permitted, the world might exist on credit. That there is an enormous amount of credit in existence is well known, but this credit is built up upon the quantity of money which is in circulation, and to which recourse must be had in the long run.

Money and Credit.

The function of money, and the way in which it plays its part in the world's economy, has never been better expressed than by the great French writer, Bastiat. He says : " This is now the time to analyse the true function of money, leaving out of consideration the miners and importation. You have a crown piece. What does it mean in your hands ? It is, as it were, the witness and the proof that you have at some time done some work which instead of profiting by, you have allowed society to enjoy, in the person of your client. This crown piece witnesses that you have rendered a service to society, and moreover states the value of it. It witnesses, besides, that you have not received back from society a real equivalent service as was your right. To put it in your power to exercise this right when and how you please, society by the hands of your client has given you an acknowledgment, a title, an order of the state, a token, a crown piece, in short, which does not differ from titles of credit, except that it carries its value in itself (*sic*), and if you can read with the eye of the mind the inscription it bears, you can distinctly see these words, ' Pay to the bearer a service equivalent to that which he has rendered to society. Value received and stated, proved and measured by that which is on me.' After that you cede your crown piece to me. Either it is a present, or it is in exchange for something else. If you give it to me as the price of a service, see what follows : your account as regards the real satisfaction with society is satisfied, balanced, closed. You rendered

Bastiat on Money.

it a service in exchange for a crown piece, you now restore it the crown piece in exchange for a service; so far as regards you the account is settled. But I am now just in the position you were before. It is I now who have done a service to society in your person. It is I who have become its creditor for the value of the work which I have done for you, and which I could devote to myself. It is into my hands, therefore, that this title of credit should pass, the witness and the proof of this social debt."

The necessity for a measure of value and a medium of exchange being granted, it is of the utmost importance to notice the requirements of a perfect money system. It is too much to hope that the whole of these requirements can ever be attained by the use of any particular material, but, as will be shown later on, gold, silver, and copper seem to possess the majority of them more than any other substances. The late Professor Jevons carefully considered what these requirements were and stated them as seven in number, viz., value in the material used itself, portability, indestructibility, homogeneity, divisibility, stability of value, and cognisability.

Necessary Qualities of Money.

Since money has to be exchanged for valuable goods, it must of itself possess value and have utility as the basis of value; in other words, it must be such that an ordinary person would care to have possession of the substance in any form, coined or uncoined. The precious metals belong to this class of things, and, therefore, fulfil the first of the seven requirements. The value which attaches to a paper currency is the knowledge that the paper can be exchanged for coins if necessary. If this were not so the quality of value in the material itself would not be satisfied, as it is nothing more than the paper used in its manufacture.

Utility and Value.

It is essential that money should be capable of being conveyed with ease from one place to another. There must be great value in small space. Bulky and cumbersome materials used for money would render commerce as difficult as in the days of barter. How important this quality is will be recognised when it is remembered that the differences created by international trade have to be liquidated at times by money being sent from one country to another. This is the only method of settlement. The manner in which this transfer is economised in

Portability.

practice will be noticed later. It is not an easy matter to transport a large quantity of gold or silver, but the precious metals are much more satisfactory for this purpose than any other substance.

Indestructibility.

The quality of indestructibility is not possessed by any substance in nature, that is, nothing can retain its shape, form, and general appearance for an indefinite period of time. But although nothing is indestructible, there are certain substances which approach that quality nearer than others. It has been pointed out that money is a record or a certificate of a debt. If, therefore, that record is to be kept, it must be of such a kind that it cannot be easily destroyed. The superiority of the precious metals over the various devices of ancient, mediæval, and even modern times, such as cowrie shells in East Africa, compressed tea in Thibet and parts of China, dried fish in Newfoundland, tobacco in Virginia, and soap in Mexico, is easily apparent.

Homogeneity.

By homogeneity is meant a sameness of kind or nature. It is of the greatest importance that there should be no difference in the value of the different parts of the substance used. There are various kinds of almost every substance one can name except the precious metals. Gold and silver are uniform throughout.

Divisibility.

It is obvious that in order that the requirements of money as a medium of exchange should be fulfilled, the substance used must be divisible into any number of parts, and there must be no loss occasioned by the division. If a sovereign is divided into four equal parts, each of these parts is of the value of one fourth of a sovereign, that is, there is practically no loss—it is impossible to neglect the fact that there is, at least, a slight loss by the process of division, though the loss is only about $\frac{1}{4}$d. to $\frac{1}{2}$d. per ounce—by reason of its being divided. Again, if the four parts are welded into one, the value of the whole product is equal to that of the four parts separately. This power of divisibility without loss is not possessed by all substances. For example, precious stones might serve as money, since they possess some of the qualities which are necessary for it. But they fail when the question of divisibility arises. A precious stone cannot be cut up into parts without an enormous loss in value. The collective value of the parts of a broken diamond is very much less than the value of the stone as a whole.

Of all the requirements of money, that of stability of value is, perhaps, the most important. And by stability is meant something as near perennial fixity as possible.

Stability of Value.

When a man enters into a contract which is not to be fulfilled for some time, he naturally expects to obtain, or to pay, whichever the case may be, something which is practically of the same value as it would be if the matter was to be concluded at once. For instance, an obligation to receive or to pay a sum ot one hundred pounds ten years hence would be a serious matter it the value of a sovereign rose or fell two or three times during the intervening period. Long-continued credit could not, under such circumstances, exist. Instability would render measurement of value a mere farce. Great variance in the value of money would be as harmful as having a yard measure which was forty-five inches in length one year and only twenty-seven inches the next. Commerce could not be carried on with such conditions existing. A little reflection will show how unsuitable some things would be as a measure of value and a medium of exchange. Take, for example, the case of wheat. One year a harvest may be abundant, another year it may reach the average, and a third year it may fail completely. Wheat could not, therefore, serve as money at all. Gold varies, perhaps, less than any other substance in value as compared with other commodities generally. The prices of articles, that is, their value as estimated in money, have varied to an enormous extent, sometimes rising and sometimes falling. But this variation has been, in the main, the result of the production of the articles, and not of any great change in the value ot gold. Silver has, it is true, declined greatly in value, but since the English standard is a gold one, and silver coins are but token money, this fact does not alter the general stability in value of the coinage.

The last of the seven requisites of a perfect system of coinage is cognisability, by which it is meant that the substance used must be of such a character that a person of ordinary

Cognisability.

intelligence is able to recognise at once what is the nature of the substance. Gold nearly fulfils this requisite to perfection. Very few people would be imposed upon by a counterfeit gold coin. A sovereign is recognisable at once. It is not so with silver coins, and as there is a large profit to be made out of them counterfeit silver coins are not uncommon. But, owing to the limitation noticed in the last paragraph, the consequences of this cannot ever be serious except to the individual who is defrauded by having such coins passed on to him.

Gold, silver, and bronze have been recognised as the most suitable substances for coinage by all civilised nations. They do not possess all the qualities which are the desiderata of a perfect coinage, but they possess them more than anything else, and consequently approach most nearly to perfection. Gold and silver are never used in a pure state, as they are too soft for circulating purposes. Each is mixed with a certain amount of copper, and the alloy thus formed is the standard used for the coinage. Bronze is also an alloy, being composed of a mixture of copper, tin, and zinc, in the proportions ninety-five, four, and one.

Necessity for Good Coinage.

It is essential that the money of a commercial nation should be maintained in a good condition. Not only is it a matter of importance at home, but also when international exchanges have to be made. Much of the prosperity of England is due to the excellence of its modern coinage. An English sovereign passes current everywhere. But it has not always been an easy matter to accomplish this. The governments of all civilised states have invariably imposed severe penalties for cases of counterfeit coining, and for mutilation of the coinage. But these penalties have often proved ineffectual owing to the neglect of scientific laws and ordinary precautions. It is not to be expected that any efforts can succeed in utterly abolishing counterfeit coining and mutilation, but care and watchfulness can diminish them very considerably.

Good Money Driven Out by Bad Money.

The history of the coinage of our own country illustrates the difficulties which have to be encountered in an unscientific age. It is not necessary to enumerate all the different kinds of coins which have been in circulation at different periods, but as none of them were very finished specimens, and their shapes often very irregular, it was easy for an unscrupulous person to make a profit out of them. This was usually done by clipping or by rubbing. It was no uncommon thing for piece after piece to be cut off from a coin, the cuttings being melted down and sold as bullion. Thus, a person guilty of such practices would take a coin purporting to be of a certain value, and pass it on as equally valuable after it had been diminished by his act. In the same way a considerable profit could be made by rubbing coins together, or shaking them in a receptacle, a process still known by the name of "sweating." As a natural consequence the coins in circulation became smaller and smaller in size, and therefore less and less valuable, and often they were defaced almost out of recognition. Merchants were, therefore, not at all willing to take any kind of coin tendered to them, as they generally are at the present day, and when they did get possession of good-sized and valuable coins they were anxious to keep them and only to pass on the smaller and less valuable. The money changers were the same. They had to consider foreign commerce, and to remember that when coins were sent abroad they were valued by their weight and not by their denomination. The Government endeavoured over and over again to remedy the evil by issuing fresh coins of full size and value. But these were hardly in circulation before they disappeared. The old worn and clipped coins continued to do duty as a medium of exchange, and it was an advantage and a gain for a man to keep the new coins and to hoard them up—there were no banks in which to deposit money—or to clip and to sweat them for his own purposes. The good money was effectually driven out by the existing bad money.

Though this fact is now so simple and so self-evident to the most casual thinker, it was very slow in making itself manifest to the government of the country. The first person to express it clearly was Sir Thomas Gresham (1519-1579), who was the great financial authority of the early part of the reign of Queen Elizabeth. This he did in the following form, in what is known as Gresham's Law: "If coins of the same metal, but of varying weight and quality, circulate together at the same nominal value, the worse coins will tend to drive the better from circulation, but the better will never drive out the bad." It was in partial recognition of this law that the first great general improvement was made in our coinage in 1696, and in full recognition that a final settlement was arrived at in 1816.

Gresham's Law.

Clipping the coins was prevented by the method of "milling," first introduced in 1696. Before that time there had been no particular edge at all to the coins. It was not difficult, therefore, for any person to cut off a small piece whenever he was so inclined. But after the introduction of milling,

Milling.

that is, the turning up of the edges of the coins and putting rows of ridges and furrows upon them, the coins would be utterly spoiled if any part of them was removed, as the milling would be broken into and the coins would not be accepted and could not circulate.

The difficulty of mutilation having been effectually dealt with, there remain the others of sweating and counterfeiting to consider.

Counterfeiting Coins.

There is, no doubt, some considerable profit obtainable by sweating gold coins, the margin between the Mint weight of a sovereign and the lowest weight at which it is a legal tender being of sufficient account to allow of it. This, however, is a matter which cannot be avoided. The necessity of possessing a large capital to make any substantial gain by sweating minimises the danger. As to counterfeiting, it is not an easy matter to turn out counterfeit gold coins, and certainly not a profitable occupation to make them out of standard gold. With silver it is another matter. But it is hardly worth while to manufacture counterfeit silver coins in any great quantity, seeing that their circulation as legal tender is limited.

Another most important matter to be considered in connection with the issue of standard coins is that their value shall be properly estimated. In other words, any quantity of metal in the form of bullion must be of exactly the same value as the same quantity of metal in the form of coin, after making a certain allowance for fineness. This has been sometimes referred to as the fundamental principle of the coinage. A little consideration will make it clear what would be the effect of ignoring the principle. If metal in the form of bullion is more valuable than metal in the form of coin, that is, if it has a greater exchange power, the coins will disappear from circulation and be melted down into bullion. If, on the contrary, the bullion is less valuable than the coins, every effort will be made to turn the former into the latter until stability is attained.

Fundamental Principle of Coinage.

A combination of the effects of Gresham's Law and the abovenamed fundamental principle of the coinage is seen when there are two metals used for coinage, and a certain ratio fixed between them. If the ratio of the metals is the same as their market value, the coins of each metal will remain in circulation, provided that the rule of the last paragraph has been observed. But if there is a difference between

Use of Two Metals.

the fixed ratio and the market value, one of the metals will go out of circulation. And the one which remains in circulation will be the over-valued metal. Thus, if gold and silver are the two metals used for coinage, and each of them is recognised as a standard, there will be no difficulty so long as the Mint ratio of the two metals is the same as their market value. But directly there is a rise or fall in the market value of one of them, whilst the standard of the coinage remains the same, it will be obviously undervalued in the coinage and will be withdrawn, since it can be more profitably employed in another manner.

Under-rated Silver.

There are plenty of instances of the truth of this statement to be found in history, but it will be sufficient to give one of them. Until the adoption of the gold standard in 1816, England was a bimetallic country, that is, both gold and silver were legal tender, the Mint was open to the free coinage of each metal, and there was a fixed ratio at which they circulated. But in 1696, when the first great improvement was made in the coinage, there were golden guineas in existence, and silver coins of various denominations. The value of the guinea was fixed at twenty-two shillings. Immediately the new silver coins began to disappear. It was found, after careful inquiry, that gold was over-rated, and that the guinea was not equal in value to the sum named. The under-rated silver naturally disappeared. Eventually the value of the guinea was fixed at twenty-one shillings, and it was estimated that this was nearly four pence too much. The reduction in value did something to steady matters, but even when the difference was so slight, the silver still continued to disappear. Dealings were almost entirely in gold, and England became so accustomed to gold as a medium of exchange that when the re-arrangement was made in 1816 gold was adopted as the standard of the coinage.

Value of Money.

It has been pointed out that the value of anything is the amount of any other thing for which it can be exchanged, and that when this value is measured by money the name price is given to it. The value of money is estimated like any other substance; it is exactly what can be obtained for it. The value fluctuates according to circumstances. Either money increases or decreases in quantity, or the quantity of other things increases or decreases. And according as these variations take place prices rise or fall. If the supply of various commodities remains stationary, and the quantity of money increases, prices will rise all round. If the quantity of money decreases, prices will fall. Similar results follow if the supply of money is stationary and that of commodities rises or falls. As all things are compared with the standard, it will be seen that it is always possible for there to be a general rise or fall in prices. But there cannot be a general rise or fall in values, because a rise in the price of any commodity implies a corresponding fall in the value of the coin in which it is expressed. If there is any change in the value of two things, one of them must fall and the other rise. Value is a ratio, price is the medium by which ratios are measured.

Price of Money.

Since it is impossible to measure a thing by itself, that is, in terms of itself, there is really no such thing as price of money. The phrase "Mint price" is sometimes met with, but its only meaning, when applied to bullion, is the number of coins into which a given quantity of bullion is divided. A little consideration will make it clear that the Mint price of bullion is a fixed quantity, and cannot vary so long as the same quantity of bullion is coined into the same number of coins.

CHAPTER II

THE COINAGE

THE necessity of money having been demonstrated in the last chapter, it is now necessary to examine the steps taken by different countries to put it into circulation. The choice of a metal, or metals, to serve as a medium of exchange is only a preliminary step. The metal, in its uncoined state, is known as bullion. Some countries have, it is true, used bullion as money, but the merchants of those nations were compelled to carry scales and weights about with them, and the bullion had to be weighed out on every occasion. But now a more convenient practice has been adopted. The bullion is divided into parts of certain definite weight, a stamp is affixed, and this stamp certifies that the metal is of a certain weight. Moreover, since gold and silver are never used, except in certain Eastern countries, in their pure state, the stamping further certifies that the metal which is issued is of the standard quality, or, as it is called, of a certain fineness. The stamped pieces of metal are called coin. It must not be supposed that there is any particular value added to a metal by its being coined. It is only a matter of convenience. It saves division and weighing. The coin itself will only exchange for the same quantity of things that could be obtained for a piece of metal of the same weight. There might be a slight difference if there was any expense connected with coining, but it will be shown directly that English gold, which is the standard coinage of this country, is coined practically free of all expense.

Coins.

The necessity of a duly certified coinage is also made manifest by the large amount of foreign trade done, and by the international exchange which springs from it. Credit can, if properly regulated, restrict the need for actual coined money, but when a debt contracted by one nation has to be liquidated by it to another nation, credit will not suffice. There must be a transfer of money. And the debt is calculated

Foreign Trade.

in the value of the metal which is used. It is immaterial what a coin is named. A person who takes gold or silver coins from a person resident abroad buys so much gold or silver, and it is in this way alone that a foreign debt can be paid.

Mono-metallism.

There can be little doubt that it would have been of the greatest advantage for all countries if some one metal could have been decided upon as a standard for the coinage of all nations, and if a uniform fineness of this metal could have been established. In practice, however, that has been found impossible. Gold serves admirably for money. But gold alone will not suffice. It is too valuable and therefore too scarce for every-day employment. Coins of the sizes of sovereigns and half sovereigns are not too small; but if it were necessary to have gold coins for the purchase of every little article required, they would be so minute that there would be great danger of their being lost. On the other hand, if silver were fixed upon as the circulating medium, the quantity of the metal that would have to be carried about whenever business was being transacted would be so great that intolerable inconvenience would arise. A compromise, therefore, is necessary. The more valuable metal circulates for the sake of the heavier payments, the less valuable for the lighter. But one or other of the two must be fixed upon as the standard of comparison. A system in which one metal is the standard is called a monometallic one.

Bimetallism.

In opposition to monometallism there is another system suggested, which is known as bimetallism. This, as its name signifies, means the employment of two metals as legal tender instead of one, that is, assuming gold and silver to be the two metals chosen, either metal is to be capable of paying any debt in existence at the option of the debtor. The difficulties of such a system have been referred to in the last chapter. At present these difficulties appear to be insurmountable, although there are some very powerful advocates for its adoption.

England's Gold Standard.

The difficulties of bimetallism were clearly recognised when the Coinage Act of 1816 was passed. England had been a bimetallic country up to that date, but the inconvenience caused by the continuous withdrawal of silver made it necessary to adopt a fresh course. This was in part owing to the over-valuing of the gold guinea, and the undervaluing of the silver currency. To obviate the difficulty gold was made, after 1816, the sole legal tender in the United Kingdom. Bank of England notes are legal tender in England, except at the Bank or at any of its branches, but that is because they can always be exchanged for gold. Silver ceased to be legal tender for sums exceeding forty shillings, and bronze was made legal tender for amounts up to one shilling.

Gold Coins.

The principal English gold coin is the sovereign, commonly known as the pound. There are other gold pieces coined, but, excepting the half-sovereign, the number of them is not great. No coin of the exact value of the present sovereign had been coined before 1816. There had been gold coins in existence, but their values had varied, and for a century before 1816 the guinea had been the principal of these. Payments had been made principally in guineas, although reckonings had been always in pounds, and it is a survival of the old custom of payment which leads professional people to receive guineas rather than pounds up to the present day. The gold from which coins are manufactured is mixed with a certain amount of copper, the proportion of gold being $916 \cdot \dot{6}$ per thousand parts. The weight of the sovereign is 123·27447 grains troy. A pound or sovereign, therefore, is simply the weight of a certain quantity of a given standard of gold stamped at the Mint. Forty pounds in weight of standard gold bullion are, by the regulations of the English Mint, cut up into 1,869 pounds or sovereigns, and as the value of gold is estimated by the ounce, this works out at £3 17s. 10½d. per ounce.

Cost of Coinage.

Unless gold is required for manufacturing or other similar purposes, it is a disadvantage for any man to keep it in the form of bullion. It is necessary to convert it into coins. The privilege of coining money has always been jealously preserved by the governments of all civilised countries, and in England it is not possible to have this done except at the Mint. But people were not always ready to bring their gold to be coined owing to the charge which was made for coining. It meant a loss to them, or, rather, the gold which they received in a coined state had a less exchange value than the gold in the form of bullion. In the reign of Charles II., however, this charge for coining ceased to be imposed, and any person was at liberty to bring his gold and have it coined free of any cost whatever.

By the Coinage Act of 1870 bullion may be assayed and coined free of expense, but in practice it rarely happens that a person goes to the Mint with his bullion and sells it at £3 17s. 10½d. per ounce. If he did so he would have to wait for his money until the gold was coined. To avoid this waiting the Bank of England acts as an intermediary. The Bank takes gold at the price of £3 17s. 9d. per ounce, and pays down the money at once. The difference of 1½d. per ounce represents the discount charged by the Bank and their own remuneration for their trouble in the matter. It does not represent any charge whatever for the coining of the gold.

Before the machinery used for coining purposes reached its present state of perfection, the coins which were put into circulation varied to a slight degree both in fineness and weight.

Remedy Allowances.

By fineness is meant the proportion of pure gold contained in standard gold. English standard gold is said to be eleven-twelfths fine, since the proportion of pure gold to copper is eleven to one. It is also known as twenty two carat, owing to the practice of goldsmiths fixing the number of twenty-four for comparison. By the Coinage Act of 1891 a variation of two parts in one thousand is allowed for fineness. This is known as a remedy allowance. A remedy allowance is also allowed as to weight, and this is also fixed at two-tenths of a grain for a sovereign. Other remedy allowances are fixed for other coins, double the amount for two-pound pieces and five times the amount for five-pound pieces. The weight remedy for half-sovereigns is three-twentieths of a grain.

Light Gold.

A sovereign ceases to be legal tender if its weight is less than 122·5 grains. Constant wear and tear causes a diminution in weight, and it is impossible to avoid this eventually reaching such a point as to render coins no longer legally current if they are kept in circulation. Although no charge was made for coining gold after 1666, there was no provision as to replacing light gold. The loss fell upon the public. It is quite true that the law demanded that any person who received a coin defective in weight should deface it and return it to its former owner, and that the latter had to bear the loss. But it was not easy to accomplish this in practice. Lighter and lighter gold was consequently kept upon the market. Money dealers were also at work, in accordance with Gresham's Law. The heavy coins were picked out and kept, the remainder were again circulated. The fundamental principle of coinage was also being neglected. At length, however, the Government were induced to take the matter up, and to provide for the issue of a better gold coinage. By an Act passed in 1889 all the gold coined before 1837 was called in, and its full nominal value allowed to the owners, provided that the loss in weight was not greater than four grains in each sovereign, and it appeared that the coins had not been illegally or unfairly tampered with. If the loss was greater the coins were taken as bullion and at bullion price. This Act has been extended by another Act passed in 1891, and the King may now, by proclamation, call in and allow the full nominal value of gold coins of any period since 1837, provided the loss in weight is not greater than three grains per sovereign. Gold coins of a date prior to 1837 are no longer current in this country.

With regard to the silver coinage, it is simply used in this country for small change, and is only legal tender up to forty shillings.

Silver Coinage.

Standard silver consists of thirty-seven parts of pure silver, and three parts of copper. Its fineness is represented by 925. There are numerous coins of different denominations, but their weights are all fixed in multiples of the shilling. One troy pound of standard silver is coined into sixty-six shillings, and the weight of a shilling is, therefore, 87·272 grains. That is when it is issued from the Mint. There is a weight remedy of ·578 grains. As silver coins are merely token money, and not unlimited tender, it is sufficient if they are always decipherable. There is no weight fixed below which a silver coin ceases to be current.

Price of Silver

The mistake of under-rating silver in 1696 was not allowed to be repeated in 1816. It has been shown how the silver coinage suffered during the eighteenth century through the operation of a natural law. And it is clear how the gold coinage would have suffered during the nineteenth century, through the great fall in the price of silver, if an unalterable ratio had been fixed between gold and silver, and if the two metals had been allowed to pass current as legal tender. The object to be attained was to keep just as much silver in circulation as was necessary for the purposes of exchange in this country. This was done by coining silver at a price above its market value. In 1816 the market price of silver was five shillings an ounce. But an ounce of silver was converted into coins of the nominal value of five shillings and sixpence. The silver coinage was kept stationary. As it was not undervalued it did not go out of circulation. As it was and is not legal tender except to the amount of forty shillings it did not drive gold out of circulation. There has always been a profit, since 1816, on the coinage of silver. But the Government kept the coining to themselves, and the profit went towards keeping up the Mint. With the subsequent fall in the value of silver to the extent of more than 50 per cent., the profit has been still further increased. The existence of such a profit makes it imperative that the coinage should always be kept in a good condition. (N.B.—Since 1914 there has been a very great advance in the value of silver. Whether it is temporary or permanent remains to be seen.)

Bronze Coins.

Bronze is an alloy composed of ninety-five parts of copper, four of tin, and one of zinc. Like silver coins, those manufactured from bronze are only tokens, and the value of the bronze is very much lower than the nominal value of the coins. Being also a legal tender only to the amount of one shilling, the same remarks apply to bronze as to silver.

Owing to the exchanges which take place between various countries and the consequent settlement of differences in money, it is necessary to examine the monetary systems of the principal nations of the world.

The Latin Union.

It was found desirable in 1865 for France, Belgium, Italy, and Switzerland, owing to the intimate commercial relations which existed between these countries, to formulate certain laws with regard to their currency. All these countries had used silver largely, as had Greece, which joined the Union in 1868, but in consequence of the adoption of a gold standard by other nations it was necessary to take measures not only to prevent the coinage of silver, but also the exportation of gold coin, since Gresham's Law would have been quickly brought into operation, and the better money would have been driven out by the worse. Gold and silver coins were made legal tender, and, the ratio of the two metals was fixed at 1 to 15½. This constituted a bimetallic standard. The five-franc piece was the principal coin in use, those of a smaller denomination being used for small change.

The weight of the coins was fixed as follows :

		Weight. Grammes.	Grains.	Pure Metal.
20 francs	Gold	6·452	99·563	89·607
5 francs	Silver	25	385·800	347·220

The Convention established in 1865 was framed to last for fifteen years, each state undertaking to receive at its public treasury the full legal tender coins of any of the countries in unlimited amounts, and subsidiary coins to the amount of one hundred francs. Each state also bound itself to redeem its own coins in gold or in five-franc pieces for a period of two years beyond the termination of the Union. In 1873 the depreciation of silver began, when Germany had adopted a gold currency. Then there was a steady flow of silver to the mints of the Latin Union. Consequently in 1874 the coinage of five-franc pieces was limited, and in 1878 it was finally suspended.

In the year 1885 the Convention was extended indefinitely, but if at any time it is abandoned, other silver-using countries will have to pay a large sum in gold to France, since that country has a large amount of foreign silver in the vaults of the Bank of France. Although they are not members of the Union, Spain, Roumania, Servia, and Bulgaria have adopted the monetary system of the Latin Union, so that all the countries of Southern Europe are practically on the same basis. Other countries having a monetary system in many respects identical with that of the Latin Union are Bolivia, Ecuador, Peru, the Argentine Republic, Venezuela, Hayti, Colombia, and Central America.

The coins used by those countries which form the Latin Union are identical in respect of weight and fineness. The unit of value is the franc for France, the lira for Italy, the peseta for Spain, and the drachma for Greece.

The standard fineness of gold coin and of the silver five-franc coin (other silver coins being subsidiary) is 900 per mille, and the remedy of the fineness is 2 per mille. The silver subsidiary coinage is only legal tender to the amount of 50 francs. All commercial transactions, between, say, England and France are on a gold basis, therefore it is necessary to state what is the par of exchange or the value of the sovereign expressed in terms of French gold, which is 25·2215 francs. The final adjustment of debts between the two countries must be gold, but as there are considerable charges and expenses connected with the shipment of the precious metal, an effort is made to avoid such a course, and it is common for more or less francs to be paid by the importer or the exporter. The extreme fluctuations in the price are known as bullion points, which are as follows:

25·325 per £ for us.
25·125 per £ against us.

Whenever the rate falls above or below these points shipments of gold take place.

German Coinage.

Germany adopted a gold standard in 1873, after the Franco-German war, the unit of value being the mark, and the standard of fineness being the same as that of the countries of the Latin Union, viz., 900 per mille. The standard weight of gold coins is such that 139½ ten-mark pieces contain one German pound of fine gold, which is a trifle more than 16 oz. troy. The twenty-mark gold piece weighs 122·91795 grains standard, or 7·96495 grammes. The silver subsidiary coinage is only legal tender to the amount of twenty marks, or about one half of the English system. The standard fineness of silver is 900 per mille; the remedy is 3 per mille. From one pound of fine silver one hundred marks are coined. There are 5-mark, 3-mark, 2-mark, and 1-mark pieces, and also 50 and 20-pfennige pieces. The two last named are one-half and one-fifth of a mark respectively. The minor coins of the value of 20, 10, and 5-pfennige are made of nickel.

Various states in Germany use the thaler, an old silver coin still in circulation. It is still a legal tender throughout the German Empire, and its value is fixed at three marks.

Transactions between England and Germany are conducted on a gold basis. The value of the sovereign expressed in marks is 20·43.

The meaning of bullion points has already been explained. In the case of Germany they are as follows:

20·52 per £ for us.
20·33 per £ against us.

The terms for and against us are used to signify that we are either receiving or losing gold, and these require most careful consideration as affecting the reserves of the banks of either country.

Holland had formerly a single silver standard, but in 1816 the bimetallic system was adopted, the ratio of gold to silver being fixed at 1 to 15·873. In 1847 silver was again adopted as the sole standard, but the bimetallic system was re-established in 1875. Silver is, however, only coined on Government account.

Holland.

The following is the monetary system:

(1) Gold and silver are standards of value in the relation of 1 to 15·625.

(2) The unit of value is the florin or guilder.

(3) The standard of fineness of gold coin is 900 per mille, the remedy being 1·5 per mille.

The standard fineness of silver coin is 945 per mille, and the remedy is the same as for gold coins. The standard weight of a gold piece of ten florins is 6·72 grammes, the remedy in weight being 2 per mille. The standard weight of the silver coin is 10 grammes, and the remedy of weight is 3 per mille.

Commercial transactions between England and Holland are on a gold basis. The cost of a draft on Amsterdam for 100 florins is about £8 4s. 7d. Thus the value of a florin at the rate of exchange of 12·3 is equal to 1s. 7d.

Austria-Hungary adopted a gold standard in 1892, the unit being the krone or crown of ·33875338 gramme of gold, and of a fineness of 900 per mille. For the subsidiary coinage the basis is the silver crown weighing 5 grammes of 835 per mille fine. The ratio between the two metals is therefore 1 to 13·69. The following are the weights of the gold and silver coins:

Austria-Hungary.

	Grammes.
Gold, 20 kronen or crowns	6·77506
,, 10 ,, ,, ,, ...	3·387533
Silver, 1 krone or crown	5·000
,, ½ ,, ,, ,, ...	2·500

The value of the 20 crown gold piece is about 16s. 8d.

The silver crown is the exact equivalent of the franc, but the crown being of the lower fineness is less valuable than the franc although of the same weight. Silver coins are only legal tender to the extent of 50 crowns, but unlimited in payment to the Government. For many years certain trade coins have been in circulation, viz., the ducat of gold, and the Maria Theresa, or Levantine thaler, of silver; but they are not a legal tender in the Empire. The ducat weighs 3·4909 grammes, and the thaler 28·064 grammes.

The coinage of Bosnia, Herzegovina, and Montenegro is the same as that of Austria. Bulgaria and Serbia have adopted the system of the Latin Union.

Portugal.

Portugal adopted a single gold standard in 1854, which only exists in theory, the unit being the milreis. This coin weighs 1·774 grammes or 27·368 grains, and is 916 per mille fine. Silver is coined on Government account only of the denomination of 500, 200, 100, and 50 reis, and 916 per mille fine. The silver coin of 100 reis is called the testoon. The weight of the coin 200 reis is 77·16 grains; in fact it is similar to the franc or the 20-cent piece of the United States, although there is a difference in the fineness of the two. The English sovereign is valued at 4·5 milreis, and is legal tender for that amount. Portugal has recently established a new coinage, but this is not yet fully issued. The monetary unit is the escudo of 100 centavos, which replaces the old milreis.

Sweden, Norway and Denmark.

A single gold standard was adopted by Sweden, Norway, and Denmark in 1875, and the unit was fixed at the krone or crown. From one kilogram of fine gold 2,486 kroner are coined. Thus, one krone is ·44803 gramme or 6·9139 grains, the fineness being 900 per mille. The 20-crown gold piece weighs 8·9606 grammes. Silver is coined by the Government in 1 and 2 crown pieces only, 800 per mille fine, of the weights of 15 and 7½ grammes respectively. They are legal tender up to 20 crowns. The smaller coins are only 600 per mille fine, and they are only legal tender for 5 crowns.

The rate of exchange between England and Scandinavia is about 18·17, that is, one sovereign is equal to 18·17 kroner.

Russia.

The present monetary system of Russia dates from 1868, the unit being the silver rouble of 100 kopecks, although gold is coined, the ratio being the same as the Latin Union, viz., 1 of gold to 15½ of silver. The gold coin known as the Imperial is ot the denomination of 10 roubles, and weighs 12·9039 grammes, the fineness being 900 per mille. A ducat equal to 3 roubles is also coined. The silver coin known as the rouble weighs 19·995 grammes, or 308·751 grains, 900 per mille fine. They are full legal tender throughout the country. The subsidiary coins are only 500 per mille fine, and they are of the denomination of 5, 10, 15, and 20 kopecks. The last named weighs 3·599 grammes. They are legal tender up to 3 roubles, but are accepted by the Government to any amount.

Turkey.

The coinage of the Ottoman Empire is supposed to be on a bimetallic basis, but it was necessary in 1880 to suspend the free coinage of silver. Both gold and silver circulate, but all transactions with other countries are on a gold basis. The Turkish pound is equal to 100 piastres or units, and the piastre is divided into 40 paras, and the para into 3 aspes. The gold piastre weighs ·07216 gramme, and the fineness is 916·73 per mille. The Turkish pound, therefore, weighs 7·216 grammes, and its English equivalent is about 18s. The silver coin known as the "medjidié" of 20 piastres weighs 24·055 grammes, 830 fine, but in 1880 it was made equivalent to 19 piastres. Thus, 105·26 piastres = £T1.

India.

The use of silver amongst the natives of India is so great that considerable difficulty has been experienced in establishing a gold currency. The Government, in order to prevent the bad effects caused by violent fluctuations in the price of silver, fixed the gold value of the rupee at 1s. 4d., and to maintain this value accumulated large reserves of gold, so that the currency should be placed on a satisfactory basis. In 1893 the mints were closed to the coinage of silver in order to assist the Government in its endeavour to establish a gold currency. The rupee weighs 180 grains or 11·664 grammes, 916·73 fine, and contains 165 grains of pure silver. The gold coin is known as the mohur, being equivalent to 15 rupees, and is of the same fineness. This coin is of the same weight as the rupee.

Hong Kong and China.

Silver is the predominant currency in the East. Thus, at Hong Kong the Mexican dollar is full legal tender and contains 377·1809 grains of pure silver, the weight being 417·6657 grains. China uses the same coin, but has in addition a weight of silver, known as the tael, of the value of about 2s. 11¾d. There are, however, several kinds in use, the most important being the "haikwan" tael, and this weighs 573·9 grains troy, 1,000 fine. In 1890 China endeavoured to establish a silver coinage, the unit being a dollar of the same value as the United States silver dollar and the Japanese yen.

In 1871 the coinage of Japan was reorganised upon the European decimal system, the unit being the yen of 100 sen, and the standard bimetallic, the relation of gold to silver being 1 to 16·17. But, in 1897, a gold standard was adopted and the issue of the silver yen was suspended. The gold coin of 20 yen weighs 16·667 grammes, 900 per mille fine, and the silver coin of 50 sen weighs 208 grains. Silver is only coined on Government account, and the subsidiary silver coins are 800 per mille fine. Mexican silver dollars are in circulation in Japan, as well as in Siam and the Korea—in fact they are found very commonly all over the East.

Japan.

In the United States the currency is a gold one, the unit of value being the gold dollar of 25·8 grains, the fineness of which is 900 per mille. The eagle weighs 258 grains, and contains 232·2 grains of pure gold. The coinage of silver was limited by an Act of 1890. The silver dollar weighs 412½ grains, contains 371·25 grains of pure silver, and the fineness is 900 per mille. The ratio of gold to silver is 1 to 15·988, but the coinage of silver was suspended after 1873, although in 1878 it was made a legal tender for the payment of all debts. The subsidiary coins are the half dollar, quarter dollar, and the dime, and their weights are as follows:

United States.

	Grains	Pure Silver
Half Dollar	192·9	173·61
Quarter „	96·45	86·805
Dime	38·58	34·722

The minor coins are legal tender up to 25 cents. The 5-cent nickel coin weighs 77·16 grains, and consists of 75 per cent. copper and 25 per cent. nickel.

Mexico, the great silver-producing country, has practically a silver currency, the dollar, which weighs 417·6657 grains, being the unit of value. This coin is extensively used in the East, and is found in circulation in Hong Kong, China, and the Straits Settlements. Mexico has, however, decided to establish a

Mexico.

gold standard, partly in consequence of the success of the Indian currency reform. The new law on the subject came into force on the 1st January, 1905. The monetary unit was fixed at 50 cents gold, or practically 2s. per dollar. It is presumed that the old Mexican dollar will now be minted for export purposes only.

In consequence of the improved conditions of the country the dollar has risen in value from 19d. to $22\frac{7}{8}$d., so that the fixing of the new dollar at $24\frac{1}{2}$d. will only involve a rise of about 5 per cent.

South America.

The currencies of the various states of South America have been framed on the model of the Latin Union. Brazil has, however, a currency similar to that of Portugal, but the unit, viz., the milreis, is one half of the value of the Portuguese coin. The gold 10 milreis weighs 8·964 grammes, the fineness being $916\frac{2}{3}$ per mille. The silver milreis weighs 12·750 grammes, and is worth about 2s. The milreis is divided into 1,000 reis. Efforts are being made to establish a gold currency, the value of the milreis being fixed at 15d.

In Uruguay the unit of value is the peso, which weighs 1·697 grammes, with a fineness of $916\frac{2}{3}$ per mille. The silver peso weighs 25 grammes, is 900 per mille fine, and is equal to the French 5-franc piece.

The Argentine silver peso is a coin similar to that of Uruguay, but the theoretical gold peso weighs 1·613 grammes of the same fineness as the silver coin. The gold pieces which are coined are known as the Argentino and the half Argentino, and weigh 5 and $2\frac{1}{2}$ pesos respectively. The peso is divided into 100 centavos.

A similar coin circulates in Chili, but its fineness is only 835 per mille.

The gold peso of Argentina weighs ·5991 grammes, the fineness being $916\frac{2}{3}$ per mille. The gold coins in circulation are the condor of 20 pesos, the dublon of 10 pesos, and the escudo of 5 pesos.

The unit of value in Peru is the sol, which is equivalent to the French 5-franc piece, with a fineness of 900 per mille.

In Bolivia the unit of value is the silver boliviano, of the same fineness as the sol of Peru, weighing 25 grammes.

Egypt.

In 1885 Egypt adopted a single gold standard, the unit being the pound of 100 piastres. Silver is legal tender for 100 piastres and bronze and nickel coins for 10 piastres. The Egyptian pound weighs 8·5 grammes or 131·172 grains, the fineness being 875 per mille, and the value is greater than that of the English sovereign, which weighs 123·27447 grains. The silver piastre weighs 21·604 grains or 1·4 grammes, the fineness being 833⅓ per mille. The large amount of nickel money of the nominal value of 1, $\frac{1}{2}$, $\frac{1}{5}$, and $\frac{1}{10}$ piastres, and bronze pieces of $\frac{1}{20}$ and $\frac{1}{40}$ piastres. indicate the poverty of the lower classes of Egypt. For some years Egyptian gold coins have not been issued, and the gold which circulates in Egypt and the Sudan is almost exclusively English sovereigns.

Canada. There is no gold coinage in Canada, but the United States eagle of ten dollars, and the English sovereign are both legal tender to any amount. The English sovereign is valued at \$4·86⅔. Silver coins are only legal tender up to 10 dollars, and minor coins to 25 cents. The silver 50-cent piece weighs 179·32 grains or 11·62 grammes, is of a fineness of 925 per mille, and, as compared with the United States' dollar, is worth 44·6 cents.

Nwefoundland. The colony of Newfoundland has a currency different from that of Canada, the unit of value being the dollar of 25·682 grains or 1·664 grammes of gold, fineness 916⅔ per mille, and this, compared with the United States dollar, is worth \$1·014. The actual coins in use are \$2 pieces. The English sovereign and the United States dollar are full legal tender for \$4·8 and \$·985 respectively. The silver coins are legal tender up to \$10 only. The half dollar weighs 181·81 grains or 11·782 grammes, and is 925 per mille fine.

NOTE

It must be borne in mind that the remarks contained in this chapter as well as in succeeding chapters have reference to pre-war conditions. It would be idle to attempt to guess what changes may possibly be made in a few years' time.

CHAPTER III

BANK NOTES

In the two preceding chapters money alone has been dealt with, that is, metallic coined money. But it is not to be supposed that the work of the business world could ever be conducted upon a strictly metallic coinage basis. It has been pointed out that if a nation were highly civilised, and if it were practically certain that every obligation entered into by any man would be strictly fulfilled, such a nation might almost dispense with money. But it would be very inconvenient and would involve a series of complications in accounts. The credit of individuals varies, and therefore the collective credit of a nation is a most variable quantity. And so long as there is plenty of credit in existence different kinds of instruments of credit will be called in to supplement and help the metallic coinage, and to that extent the currency of the country will be increased.

Money and Credit.

The word currency is most frequently used to denote the circulating medium in use in a country. It is not a word which can bear the test of strict examination, but as it has become so commonly used as a substitute for the more cumbersome phrase circulating medium, it is the one which will be used whenever speaking of the various instruments by which the business of the world is conducted. It must not be forgotten that as between country and country differences must be settled by an actual exchange of goods, or by money itself in the shape of bullion or of coin. Instruments of credit will not suffice, unless they are actually of the same value as the money they represent. Internally, however, it is different. Everything which transfers credit, and which is accepted as such transfer, is a part of the currency of the country. A coin signifies the indebtedness of society to the individual who possesses it. This indebtedness is transferred by a transference

Currency.

of the coin. A bank note indicates the indebtedness of a bank, by its promise to pay, to the holder of the note. It passes from hand to hand, and may take the place of money, so long as the credit of the bank is good, and the belief exists that the bank has sufficient possessions to meet the face value of the note in case of need. Again, bills of exchange, cheques, promissory notes, etc., have an enormous circulation. They also pass from hand to hand and are accepted if it is believed that they will be met at maturity. They are taken and dealt with instead of money. They all represent debts, though they exist upon credit. And so long as they circulate in a country, they represent a part of its currency. Indeed, it has been well said that "the amount of the currency or circulating medium in any country is the sum of all the debts due to every individual in it—that is, all the money and credit in it." But there may be many debts in existence which are not represented by the circulating medium, because a system of exchange could take place without the use of coin. For example, in exchange for labour a certain amount of coin may be paid.

Ratio of Money to Credit.

It is difficult to arrive with any certainty at the comparative amounts of money and credit which are in daily use. But from various calculations that have been made at different times it has been estimated that in London, at any rate, paper money, as currency, is responsible for over 95 per cent. of the business transactions carried out. In the country the ratio is probably much less, from 80 to 90 per cent. But these figures must be received with all caution. Nevertheless, it is obvious how great would be the difficulties of a country like England if the currency consisted of nothing but the metallic coinage. The amount of it required would rise enormously.

Issue of Instruments of Credit.

It is no part of the object of the present volume to enter upon the intricate question of the issue of instruments of credit, such as bills of exchange, cheques, and promissory notes. It is quite true that the issue of them is based upon the gold in the country to a certain extent; but no one ever expects that they will all be liquidated in that metal. Confidence is the foundation of all. When that confidence is great we may expect to see a large use of credit documents, and so long as the credit of the various persons who are under obligations is good, no difficulties will arise. The transfer of the instruments of credit will be quite easy, and their liquidation almost a certainty. But this liquidation is invariably effected by a transfer of credit, and not by a transfer of money. It is to the business community that the amount of the issue must be left with all confidence. An over issue has at many times led to financial disaster, but that is owing to the misuse of credit, rather than to the amount of coin which is in existence.

Bank Notes.

Bank notes form a very important part of the currency of a country. In the United Kingdom bank notes are promissory notes issued by a banker payable to bearer on demand. As such they pass most freely from hand to hand, and as a rule there is no inquiry into the solvency of any of the parties to them, as there is in the case of bills of exchange, cheques, and promissory notes. The status of the bank is the only consideration. For that reason it is necessary that the issue of such instruments should be carefully regulated by the Government.

Early Bank Notes.

When bank notes were first issued, there was no idea of adding in any way to the currency of the country. They were simply promises to pay on the part of bankers who had received metallic money from the people who dealt with them. They were, in reality, a substitute for the coinage, and prevented the wear and tear of the coins which arose from frequent circulation. For every note issued the bankers were supposed to retain an equal amount of gold in their rooms, and at any time the note could be exchanged for gold. It was owing to the fact that the bankers did not retain sufficient gold to pay the notes issued by them that numbers of disastrous failures occurred over and over again. This system of keeping gold as against notes has been called the "simple deposit system." There was also another advantage to be derived from the use of notes. The portability of money was vastly increased.

But it was unprofitable to keep gold idle in the vaults of a bank and substitute paper money entirely for it. And if the sum total of the face value of the bank notes issued was no greater than the value of the gold deposited, this was tantamount to substituting a paper currency for a metallic one, but people are apt to forget the fact that they are exchangeable for gold on demand, although at times there is not sufficient gold for the purpose.

The issue of notes was not always confined to banks. The Bank of England enjoyed special privileges and was very jealous of any infringement of its powers, but private individuals were in the habit of issuing notes, containing promises to pay on demand, and the public were often quite willing to accept them. There was a credit being established, and business transactions were being conducted by means of these notes, which notes took the place of money. So long as the credit was good there was no harm done. But directly there was a feeling of distrust, and the notes could not be exchanged for money, a financial crisis occurred, entailing ruin upon hundreds of people. In spite of the lessons which ought to have been learned from these periodic disasters there were nevertheless people who believed that there should be no restriction placed upon the issue of notes, but that there should merely exist a legal liability to pay them in coin on demand. That is not the case nowadays. An unlimited note issue is regarded as a grave and serious danger, and it was to regulate the issue in this country that the Bank Charter Act of 1844 was passed which settled the question of our note issue.

Eighteenth Century Practices.

The terms convertible and inconvertible paper currency so frequently arise that it is here advisable to explain what is meant by each of them. A convertible paper currency is one that can be exchanged on demand for its full value in gold at the bank which issues it. For example, a Bank of England note is convertible, for it must be exchanged for gold at the Bank itself. On the other hand an inconvertible paper currency is one which cannot be exchanged into cash at its face value on demand, but which must be accepted as representing the value printed upon it. So long as a paper issue is convertible on demand it retains its value, and in order to be convertible it must not be issued to excess. An excess in issue would destroy its convertibility. But when paper money is inconvertible, it usually falls in value. There is no inducement to keep down its issue, and there is also an uncertainty as to whether the obligation of the issuer will be carried out. In such cases the paper becomes at a discount, though it is generally said that gold and silver are at a premium. With an over-issue of inconvertible paper money it will be easy to see that, by a modification of Gresham's Law, when the issue has reached such an extent that the total amount

Convertible and Inconvertible Notes.

of the currency has become greater than the normal amount required by the country, the precious metals will be driven out of circulation and the inconvertible paper money will take its place.

The English paper currency is a convertible one, that is, the paper money can be exchanged for gold on demand. It does not mean that gold is kept in reserve by the Bank of England for the full amount of the notes issued, but sufficient to meet every probable demand that could be made upon it. But some reserve is always kept to meet sudden calls and ordinary requirements. This is entirely regulated by law.

Bank of England Notes.

At the time of the foundation of the Bank of England, in 1694, the whole of its capital of £1,200,000 was lent to the Government, at 8 per cent. interest, plus £4,000 per annum for management. In return the Bank was permitted to issue notes to the same amount. Subsequently the capital of the bank was increased, and in all £11,015,100 was lent to the Government, the figure at which the debt stands at the present day. With each loan of capital there was an additional right granted of issuing notes, but never beyond the amount of the capital which had been advanced. For any issue beyond this amount the directors of the Bank were personally liable in their private capacity. This latter limitation was afterwards removed, and the Bank was enabled to issue notes to any amount it pleased, but there always rested the obligation upon the Bank to pay in coin on demand.

Stoppage of Payment.

No difficulties arose from the issue of notes until the end of the eighteenth century. The drains of the great French War by transferring gold from England to the continent had reduced the Bank reserve of gold to such an extent, that in 1797 an Order in Council was made forbidding the Bank to pay out gold except under particular conditions. At that time, when the limitation which had formerly been imposed on it had been removed, the Bank had issued enormous numbers of notes, no one at that time understanding that the only and effective way of correcting adverse foreign exchanges is by raising the rate of interest. There were also very large numbers of country bank notes in existence and the effect of the stoppage was reflected upon them, since the Bank of England is the great reserve of all the other English banks. It naturally followed that there was a heavy depreciation in the paper currency of the country, and until 1816, when cash payments were resumed, gold was at a premium compared with notes, and, consequently, there was a considerable derangement of commerce.

But on the whole, especially at the period just following the suspension, there was less excitement than might have been anticipated. There were two reasons for this. In the first place it was not intended that the suspension should last longer than four months. And in the second place an examination was made of the financial position of the Bank. It was found to be perfectly solvent, and people were ready to accept Bank of England notes in payment of all accounts. Then for the first time notes of the face value of £1 and £2 were put into circulation. These were for the purpose of meeting payments for which the guinea coin had been previously utilised.

The Bank Solvent.

In 1810, however, the depreciation in the value of the paper currency, which had first shown itself in 1801, became so noticeable that inquiries were set on foot to arrive at a satisfactory answer to this problem of decline. In 1801 the market price of gold had risen to £4 5s. per ounce, but in 1810 it had reached £4 10s., estimated in notes. There was also a corresponding fall in the foreign exchanges. This obviously meant that gold was being driven out of circulation, though it was not equally certain that it was actually leaving the country. A committee of the House of Commons was appointed to inquire into the matter, and they came to the conclusion that the whole difficulty had been caused by the excessive issue of notes. The bank notes had in fact depreciated, and their purchasing power was less than the purchasing power of gold of the same denomination. It was the natural result of mistakes which have just been pointed out. The excess of notes caused the gold that was still in circulation to be under-rated in comparison with the paper, so that it disappeared little by little. To fill up the gap caused in the circulating medium more notes were issued. And so the depreciation went on.

Depreciation of Bank Notes.

The report of the committee, well known in the history of finance as the Bullion Report, which examined the whole question with great thoroughness and ability, was rejected by the House of Commons. As a natural consequence bank notes were still issued in great numbers, with the result that by 1813 the market price of gold had risen to £5 10s. per ounce, and the £1 note was valued at 14s. 2d. But the truth of the Bullion Report was made clear by the march of events rather than by anything else. The Napoleonic struggle came to an end, and with the re-opening of the era of peace commercial speculation again became rife. Credit expanded, but as project after project failed, and people were unable to meet their obligations, many of the country banks which had issued notes in profusion were unable to meet them, and their paper credit became valueless. In this way it is estimated that the paper currency of the country was diminished by one half in the three years which followed 1813, and it is known that the market price of gold, as estimated in paper, fell to £3 18s. 6d. per ounce in October, 1816. Cash payments were resumed, as the demands for gold for export purposes had ceased, in November, 1816, though it was necessary to again suspend payments from the early part of 1817 until 1819, owing to the operation of fresh causes. Since 1819 there has not been an inconvertible paper currency in England.

The Bullion Report.

The Bullion Report had been adversely criticised in the House of Commons on its first appearance, but after its publication in the Press it had converted the whole of the mercantile world. The recurrence of financial crises and the derangement of business thereby accentuated the necessity of examining the position, especially as it was insisted that these crises were the result of an excessive issue of notes by the Bank of England and by the country banks. It was felt that in some way or other the issue of bank notes must be regulated. A committee was appointed in 1840, and the result of their deliberations was the drafting of the Bank Charter Act, which became law in 1844.

Bank Charter Act.

In considering the whole subject, it was not unnatural that there should be opposing schools in financial matters, each of which expressed its views in forcible terms. The principal of these belonged to the schools known as Currency and the Banking Theorists. Neither of them seemed to arrive at a correct solution of the difficulties that had to be met. The former held that notes ought not to be issued for a greater amount than there would be of gold, if the paper currency was non-existent. The latter were of opinion that notes could always

Opposing Theories.

be safely issued so long as the credit was based upon legitimate business transactions. There is, however, no provision made for ascertaining with certainty what are legitimate business transactions. But it is unnecessary to enter into full details as to these differences of opinion. The former view eventually prevailed, and it is embodied in the Act of 1844.

The Bank Charter Act.

The main provisions of the Act of 1844 may be summarised as follows: The Bank was divided into two Departments—the Issue Department and the Banking Department. And the two Departments are kept entirely distinct from each other. The latter has to deal with the ordinary transactions of banking; the former is concerned with the issue of notes. The directors of the Bank were to transfer securities to the value of £14,000,000 to the Issue Department, and in return notes to this amount were issued and transferred to the Banking Department. The securities for this sum of £14,000,000 included the Government debt of £11,015,100; the difference was made up in various ways. If there was in the Banking Department any coin or bullion which was not required for immediate use, there was also to be a transfer of the same to the Issue Department, provided that the amount of silver bullion never exceeded one-fourth part of the gold coin and bullion. For the amount of this coin and bullion notes were to be issued and transferred to the Banking Department. And again, any person might demand notes from the Issue Department in exchange for gold bullion at the rate of £3 17s. 9d. per ounce. This was the basis of the note issue for the future. Except as regards £14,000,000, which amount was covered by securities, notes could only be put into circulation if there was bullion to exchange for them as a last resource. And this is the basis of the paper currency at the present day.

Country Bank Notes.

In addition to Bank of England notes there are notes in existence which are issued by various country banks. Banks which issue notes payable to bearer are known as "banks of issue." So long as the credit of the banks is good the notes pass freely from hand to hand, and as such form part of the currency of the country. The country bankers may not have, it is true, coin or bullion to meet the notes if the whole were presented at one time; but as they possess other securities it is quite safe for them to issue notes so long as they keep in reserve sufficient coin to meet the normal requirements of their clients ; and the amount of coin required is fixed by experience. Thus, a country bank might issue notes for £3,000, whilst having no more than £1,000 as a cash reserve to meet them. But if the credit of the bank is good these pass current without difficulty, and by that means a sum of £2,000 is added to the currency. If, however, the banker's debtors fail to meet their obligations and the bank becomes pressed for payment, disaster may arise. It may be impossible to realise securities except at a great loss, and if the issue of notes had been very extensive the loss will be widespread. As it has been shown, the over-issue of bank notes led to many disasters in the years 1813-1816. At length a limit was fixed as to country notes. The Bank of England obtained a monopoly of the issue of bank notes in London and within a circle of three miles round ; beyond three miles and within sixty-five miles the monopoly was to be shared with banks consisting of less than ten persons established before 1844; and beyond the sixty-five mile limit the monopoly was shared with all banks established before 1844 which did not subsequently lose their privileges. The object of the Act of 1844 was to reduce the issue of country bank notes. In future no person was to issue notes payable to bearer on demand in the United Kingdom except a banker, and no banker was to have that privilege unless he possessed it on the 6th May, 1844. The privilege, moreover, was to lapse if the country bank amalgamated with other banks, became bankrupt, or ceased to continue its issue. The march of events has caused an enormous change. In 1844 the amount of country bank notes in circulation was nearly nine millions ; at the present time it is less than two millions. To compensate for a change of this kind the Act of 1844 provided that if, for any cause, any country bank should cease to issue notes, an Order in Council might be made authorising the Issue Department of the Bank of England to issue fresh notes to the extent of two-thirds of the lapsed issue upon the deposit of securities to the same amount.

Weekly Report.

All the country banks which still possess the right of issuing notes are compelled to transmit a weekly account of their circulation to the Commissioner of Taxes. This return was ascertained from the average amount of issues of bank notes for the twelve weeks preceding the 27th April, 1844, and no banker is now at liberty to exceed on an average of four weeks the amount of this average of twelve weeks under the penalty of forfeiting an amount equal to the excess.

It will be seen that the limit of £14,000,000 fixed by the Act of 1844 has been largely exceeded, owing to the diminution in the number of country bank notes. But the excess is covered by securities. To indicate the financial position of the Bank of England, a full return is published every Thursday afternoon. It concerns not only the Issue Department, but also the Banking Department. But it is the Issue Department alone which is now in question. Two returns are here given, both of 1902, showing the condition of the Issue department at two different dates.

Bank Return.

JULY 2ND, 1902.

Issue Department.

Notes issued ..	£53,138,305	Government debt ..	£11,015,100
		Other securities ..	6,759,900
		Gold coin and bullion	35,363,305
	£53,138,305		£53,138,305

JUNE 23RD, 1909.

Notes issued ..	£57,706,245	Government debt ..	£11,015,100
		Other securities ..	7,434,900
		Gold coin and bullion	39,256,245
	£57,706,245		£57,706,245

About two-thirds of the notes are issued from the Bank in London, and the other third from the various branches of the Bank of England in the country.

With regard to the profit made upon the note issue, the Bank is entitled to a proportion, viz., that on an issue of £14,000,000. The Government, however, receives the balance on the amount of notes issued in excess. Thus, in 1906, the amount received from the Bank was £186,593. In addition the Bank allows the Government £60,000 per annum in lieu of Stamp Duty.

It is a well-known fact that no note of the Bank of England is issued for a sum of less than £5. Reference may here be made to the different amount for which the notes have been issued at various times. During the first half of the eighteenth century there were no notes of the value of less than £20 each. In 1759 issues were made of £15 and £10 notes, but it was not until immediately before the stoppage of payment in 1797 that the Bank of England issued notes of the value of £5. After the stoppage of payment there were £1 and £2 notes in existence, as has been already stated. But these were withdrawn when cash payments were resumed after 1816, and £5 is the least value for which there is an issue of notes at the present day. Country bank notes were at one time issued for most insignificant sums. But in 1775 it was forbidden to issue notes for sums of less than £1. Later on the amount was raised, and eventually it was rendered illegal for any bank, and not only the Bank of England, to issue any note of which the full value was less than £5.

Amount of Each Note.

The fact that there exists a vast amount of paper money which acts as a medium of exchange has led to the question being asked whether England has, in fact, a gold standard of value. It is quite true that all obligations are legally to be liquidated in gold, but it is equally true that there is not enough gold in the country to accomplish this. The fact is that in addition to the gold there is a great superstructure of credit, and so long as this credit lasts debts are able to be liquidated by an exchange of credits. To that extent therefore it is more correct to say that the standard of value is a mixture of gold and of obligations to pay in gold.

Has England a Gold Standard?

It was hoped that the adjustment of the note circulation by the Act of 1844 would put an end to the periodical financial crises which had alarmed and disturbed the country. That it failed to effect this is shown by the events of 1847, 1857, and 1866, when it was found necessary to suspend the working of the Act. Into the causes of the events of these years it is unnecessary to enter, and it is sufficient to say that the difficulties of each occasion were met by the suspension of the provisions of the Act limiting the issue of notes, and that by such means each crisis was successfully met. The panics of the years

Suspension of the Act.

just named were aggravated by misapprehension as to the working of the Act. It is now better understood, and since 1866 there has been no panic calling for legislative interference. Bank of England notes have always been readily taken, and unless there should ever arise a wild desire for gold and gold only, there is little cause for alarm. On the outbreak of war with Germany in August, 1914, the Treasury were empowered to suspend the Act, and the Government issued an emergency paper currency of £1 and 10s. notes.

Scotch Bank Notes.

The issue of notes in Scotland is regulated by an Act of 1845, which practically had the effect of leaving the sole right of issue in the hands of the existing banks. The great feature is the circulation of £1 notes. If there is an excess beyond the limit fixed by the Act, it must be represented by gold held in reserve. Each bank must send to the Stamp Office a return showing the average for periods of four weeks. Scotch bank notes are not legal tender, nor are English bank notes legal tender in either Scotland or Ireland.

Irish Bank Notes.

The Irish circulation is somewhat similar to that of Scotland, since there is an issue of £1 notes. These notes, however, are not a legal tender except in payment of the public revenue of Ireland. The Bank has the right of an increased issue if any of the existing banks surrenders any part of its issue. Irish bank notes are payable only where they are issued, whereas in Scotland those issued at a branch are payable at the head office only. If there is an excess beyond the limit fixed by the Act of 1845, it must be represented by gold.

Foreign Bank Notes.

It is clear from what has been said that the issue of bank notes in this country is strictly limited by Act of Parliament. Foreign Governments have also adopted similar restrictions in order to prevent a depreciation in value. It has also been recognised that a State is entitled to any profit which accrues from the circulation of bank notes. When a country has experienced financial difficulties, an easy method of paying its debts has been found by an issue of notes, and the result has generally been a depreciated currency. For example, in Italy there was for many years an over-issue, the result being that there was a premium in gold in 1893 to the extent of 16 per cent., but in recent years a large number of bank notes has been called in and cancelled, so that now no depreciation exists.

The Bank of France is the only institution in France which is allowed to issue notes, and the amount in circulation at the end of 1904 was valued at so high a sum as £172,000,000. It is clear, however, that notes in France very often take the place of cheques in this country. The legal maximum is fixed at £232,000,000, or 5,800,000,000 francs. In order to preserve the convertibility of the note, the Bank of France holds £104,400,000 in gold and £44,000,000 in silver. The large amount of silver held in reserve is necessary owing to the fact that France had been for many years a silver using country, and after the formation of the Latin Union steps were taken to prevent gold being exported. The notes of the Bank of France are legal tender.

France.

The Germans have copied the English system to a certain extent, though not without modifications. In England there is a strict limit fixed, and so long as the Bank Charter Act is in force notes cannot be issued beyond this limit unless there is gold deposited to secure that they shall be convertible In Germany, however, the fixed limit is allowed to be exceeded under certain conditions by the Bank of Germany itself The extent of the issue permitted to the Imperial Bank is £23,641,450. To meet this issue securities must be deposited, and beyond that sum there must be gold to meet the notes. But the Bank is permitted to increase its note issue in cases of emergency, provided that there is a gold reserve sufficient to meet one-third of the total note circulation in the country. For any excess of notes issued in this manner the Bank has a tax of 5 per cent. imposed upon it so far as the amount of the excess over £23,641,450 is concerned.

Germany.

Without going into particulars as to other European countries, it may be noticed that in each of them grave evils have arisen whenever there has been an excessive issue of bank notes. Russia furnishes a good instance. As Bank notes are a legal tender in Russia, and the over-issue has been abnormally great, it is not surprising that the premium on gold has at times amounted to as much as 50 per cent. Recently the value of the paper money has been settled at a permanent rate of hxchange, one gold rouble being equivalent to 1 rouble and 50 kopecks in paper.

Russia.

The United States had a depreciated currency for many years owing to the excessive issue of bank notes ; and in consequence of the coinage of vast amounts of silver there was considerable difficulty in placing the currency on a satisfactory basis. Gold was at a premium until 1878, but from 1879 the Treasury commenced to pay notes in gold, and this had the effect of checking fluctuations in the standard of value. The first issue of notes in 1861 was for $50,000,000, in the following year a further issue of $10,000,000 was made, and at present the amount outstanding is $346,681.016

United States.

When a resumption of cash payments was made in 1879, the Treasury had $114,000 000 of gold in its vaults, and from that date notes being equivalent to gold, the Treasury accepted them for duties on imports. In order to maintain a gold reserve against bank notes United States Government Bonds have been issued at various times so that a sufficient amount of gold may be retained by the Treasury.

The notes which are in circulation are of various denominations, from $1 to $10,000, but the largest number outstanding are notes for $10 each. In addition to bank notes, the United States Government has issued what are known as silver certificates of 1890 (Sherman's Act) for the purpose of purchasing 4,500,000 ounces of fine silver bullion monthly, or as much as may be offered at the market rate, not to exceed $1 for 371¼ grains of fine silver. This has been done in order to maintain the value of silver at the ratio of 1 of gold to 15·988 of silver. However, in 1893, an Act was passed which prevented any further purchases of silver or the issue of such notes.

A distinctive feature of American banking is the issue of bank notes by the National Banks. Such banks are allowed to issue notes upon the deposit of Government Bonds at the Treasury. The minimum of issue was fixed at $30,000, and it was not to exceed one-third of the amount of bonds lodged with the Government. This deposit was made compulsory in order to secure their payment on demand. Such notes are not a legal tender for debts, but the National Bank must accept the notes of a similar bank at their par value. The notes are engraved by the Government and sent to each bank as they require the same, but the expense of issue is borne by the issuing bank. At the same time a deposit of 5 per cent. in cash is required which forms part of the reserve fund of each institution. This deposit constitutes what is called the Redemption Fund, which is formed in order to redeem notes presented for that purpose. Banks issuing notes are subject to a half-yearly tax of ½ per cent. on the average circulation if the deposit is made in U.S. 2 per cents., otherwise it is 1 per cent.

If necessary a bank can sell bonds and reduce its circulation—this is dependent upon the profit which can be made on the issue. There are two factors which govern this, viz., the price at which Government Bonds can be purchased and the average rate of interest in the money market. The issue is not to exceed the par value of the bonds, and no bank can issue notes exceeding its paid-up capital. The Comptroller may require additional deposits of bonds in case the market value of the bonds falls below the par value of the outstanding circulating notes. They are, however, not a legal tender, but are receivable at par in payment of taxes. In 1865 a limitation of the issue was enacted as follows :—

Capital exceeding	$500,000 ..	.. 80%
„ „	$1,000,000 ..	.. 75%
„ „	$3,000,000 ..	.. 60%

By an Act of 1874 only 5 per cent. in coin of the circulation is required to be retained against the note issue, but such amount can be included in the reserve for deposits. In 1882 it was enacted that banks with a capital of $150,000 need only deposit bonds equal to one-fourth of such capital. The present amount is about $42,000,000.

The decrease in the National Bank circulation is due to the reduction in the National Debt of the United States, and also to the diminution in the rate of interest which makes the issue of such notes an undesirable investment for the banks.

Gold Certificates are issued by the United States Treasury upon deposit with the Treasurer of the United States of gold coin, and coin so deposited is kept as a separate fund for the redemption of such certificates.

South American States.

South America may be described as the home of inconvertible paper since bank notes are utilised for the payment of Govern[illegible] debts. The absence of wars and a gre[illegible] world [illegible]ment the prosperity of the South A[illegible] gold [illegible]at increase in a most beneficial effe[illegible] American States has had [illegible], and there has been a great reduction in the issue of incon[illegible]vertible paper. The evils attending a depreciated currency are only too well known, but there are great difficulties to be encountered before the issue can be placed on a satisfactory basis.

Of the various countries of South America Brazil and Argentina have the largest circulation of notes. In Brazil gold was and is still at a very high premium, but more recently this has fallen by reason of the reduction in the issue of paper money. Recently a new law compels the Government to exchange gold for notes, the value of the milreis being fixed at 15d. The same is true, though not to the same extent, of Argentina. The paper money amounts to about $291,000,000, gold being at a premium of 127 per cent. n 1899 a law was passed for its conversion into gold dollars at the rate of 44 cents gold per paper dollar. Chili had a depreciated paper currency for many years, but after various attempts had been made a single gold standard was adopted, so that bank notes are convertible into gold on demand. The banks are allowed to issue notes of 20, 50, 100, 500, and 1,000 pesos, but the issue must not exceed 40,000,000 pesos in all, and the notes are guaranteed by a reserve of coin and bonds. The Bank of Chili, the most important banking institution in that country, has an issue of 2,243,000 pesos. Peru has had for many years an issue of depreciated paper, but recently the coinage of silver has mitigated its evils to some degree. After the disastrous war with Chili, the nation practically repudiated the notes which had been issued for the purpose of enabling it to carry on the struggle. The notes issued by Bolivia are to a certain extent protected by silver coin, which is held against the circulation. The Banks of Bolivia have an issue of 6,482,000 bolivianos. Paraguay has also a depreciated paper currency, the amount in circulation being about $12,000,000. The gold dollar was, in 1900, at a premium of about 800 per cent.

CHAPTER IV

THE FOREIGN EXCHANGES

MONEY in the shape of coin or bank notes is necessary for the settlement of differences when commercial transactions take place between people of the same country, though, as it has been shown, an enormous amount of business can be carried on by paper money, in the shape of bills of exchange, cheques, and promissory notes when credit is high. But it is quite another matter when commercial relations between different nations have to be considered. The differences have to be settled, but it is no longer a question of credit,—actual payment has to be made. When the matter is put in this plain fashion it might appear that the meaning is that money must be transferred from country to country upon every transaction. Such a method would be most expensive and wasteful. It is necessary, therefore, for some means to be found by which the actual transfer of coin can, as far as possible, be avoided. No method is likely to be ever devised by which shipments of gold coin or bullion can be altogether abolished, but as commerce between nations is more or less mutual and the negotiability of well-known instruments of credit is universally recognised, it is very rare for gold to be exported or imported in quantities which bear anything but the slightest ratio to the vastness of the amounts involved in the business transactions out of which the payments or receipts arise.

The Cause of Foreign Exchanges.

The great difficulty, of course, is to discover a plan by means of which the necessity of transport is reduced to a minimum. How, for example, can a man residing in Berlin, who owes a sum of £1,000 to a man residing in London, liquidate his debt in the easiest fashion? In other words, what is the cheapest and safest way of sending the gold of standard fineness and weight of the value of £1,000 from Berlin to London? If gold itself is sent someone must bear the cost of the carriage, and therefore one of the parties must lose something of his bargain.

Method of Balancing International Trade.

But if, on the contrary, it is possible for the parties to find other people who are indebted to each other in the contrary way, that is, a debt due from London to Berlin, and an exchange of indebtedness is made, a number of the transactions can be carried out without the conveyance or reconveyance of anything like of the sums of money involved. An illustration will make this clearer. Whenever goods are sold it is customary to draw bills against the shipment, and therefore when two countries have mutual dealings there will always be two sets of bills in circulation. The importer of wool, say, from Argentina, has to pay the draft drawn by the exporter from that country, and the exporter of iron to Argentina draws a bill upon his customer there in the same way as the wool exporter did. If the amounts are identical the transactions would balance as follows :

ARGENTINA		UNITED KINGDOM	
A	Importer of Iron, £500	C	Importer of Wool, £500
B	Exporter of Wool, £500	D	Exporter of Iron, £500

A buys the bill of B and remits to D, whilst C buys the bill of D and remits to B, so that the transactions are completed without the transmission of any coin. However, this is on the supposition that all the transactions between various countries balance, and that bills of exchange should settle all commercial dealings; but in practice there is always a balance owing to or from a country, and the settlement must take place in some other way.

Position of England.

Owing to the rapid growth of English commerce and the stability of our standard of value, London has become the financial centre of the world, and there is no country which has not large and constant dealings with London. As a consequence it has become the custom to draw bills upon London, that is, to draw bills which are payable in London, all over the world. These are accepted, if they are good, everywhere, and they have become by degrees a species of international currency. And since the bills are so plentiful and common it is always easy for any man who is abroad and desires to make a remittance to England to purchase one of these bills from a person whose business it is to deal in them, and then to post the bill to this country. The money is then paid in England, and the debtor is released from his obligation. Bills drawn on London are called "sterling bills." Owing to the large amount of work done in thus settling and collecting accounts, London has become by degrees a kind of clearing house in which international indebtedness is settled.

Foreign Exchanges.

The system by which commercial nations discharge their indebtedness to one another is called "foreign exchanges." It deals, in fact, with the means of transmitting and settling international debts. At the same time, however, it deals with the international value of money, and with the value of a debt due in one country and payable in another. The term "foreign exchanges" is used at the present day to mean the rates of exchange between England and foreign countries, and *vice versâ*.

Mint Par of Exchange.

When the systems of coinage of two or more countries are considered, it is seen that there is a difference in the fineness of the precious metals used. Before any settlement of differences can take place, therefore, the value of the metals must be adjusted, because when the coins of one country are taken to another, they are only estimated by their weight and fineness as bullion. Their face value is of no consideration. But if the coinage of two countries is of the same metal and both coinages are at their full weight and fineness, a calculation can be made by means of which an estimate of one can be arrived at in terms of the other. This is called the Mint Par of Exchange. Thus, taking the legal standards of England and France as gold, and the English pound as the standard unit of this country, the par of exchange between England and France would be the number of standard units of the French coinage which contain precisely as much pure gold as the English pound. The Mint par of exchange between London and Paris is, as a matter of fact, 25·2215 francs, and this means that the amount of gold in an English sovereign is just the same as that contained in 25·2215 francs, taking the Napoleon or twenty-franc piece as the standard for the gold coinage of France. It must, however, be remembered that five-franc pieces are also legal tender to any extent for their nominal amount. The Mint pars of exchange are calculated between different countries. That between London and Paris has just been given. Between London and Berlin it is 20·43 marks to £1, between London and New York $4·867 to £1, and between London and Vienna 24·02 kronen to £1.

If the coinage of a country becomes debased or defaced, or is in any way depreciated, the Mint par of exchange is immediately affected. The foreign exchanges very soon show the effect, and international differences have to be settled on another basis.

In fixing the Mint par of exchange it is the value of the metal alone that is taken into consideration. The coins are compared as though they were side by side in the same place and no expense had to be incurred for transport.

Unless countries are making use of the same metal for their standard of coinage it is not possible to arrive at a par of exchange.

Exchange with Silver-using Countries.

For example, there can be no Mint par of exchange between a gold standard country like England and a silver-using country like China. The value of silver compared with gold is in a state of constant fluctuation, and any attempt to fix a ratio would lead to confusion.

Calculation of Indebtedness.

Owing to the fact that a man can always calculate his exact indebtedness in the coinage of another country, whenever money has to be paid for the settlement of differences, he is able to consider the best means of liquidating the same. There are always enormous masses of bills in existence, bills drawn on London, and it will be for a debtor to find out the price at which he can purchase a bill and send it to his creditor. The prices of bills vary according to circumstances which will be noticed hereafter, but there are certain limits beyond which they cannot go. Otherwise it would be cheaper to transmit coin. The limits are known as the specie or gold points. Thus, suppose a merchant in Paris has to make a payment of £1,000 for a merchant in London. On the ground of expense and risk he will not wish to send over the money itself, that is, the equivalent of £1,000 in Napoleons. He will seek out a bill broker who deals in bills drawn on London, and discover what is the price of a bill for £1,000. If it is not in excess of the price of the carriage of bullion of the value of £1,000, together with the £1,000, the bill will be bought and sent by post to its destination.

Movement of Coin.

It is thus seen that there is a limit fixed to dealing in such securities as bills, and that a time must come when an indebtedness cannot be cancelled except by the movement of coin. The following table shows the extreme limits between certain of the chief cities of the world :—

THE PAR OF EXCHANGE AND GOLD POINTS OF THE CHIEF CITIES OF THE WORLD :—

LONDON.

Name of Centre.	Par.	Gold-importing Point.	Gold-exporting Point.
Berlin	20·43	20·53	20·32
Amsterdam	12·107	12·17	12·02
New York	4·866	4·90	4·83
Paris	25·225	25·34	25·12½

PARIS.

London	25·225	25·12½	25·34
Berlin	123·46	122·90	124·14
New York	518·26	515·75	523·05
Amsterdam	208·32	207·16	210·16

NEW YORK.

London	4·866	4·83	4·90
Paris	5·182	5·23	5·16
Berlin	95·28	94·50	96·25

BERLIN.

London	20·43	20·33	20·53
Paris	81·00	80·56	81·37
New York	419·79	415·25	423·30
Amsterdam	168·74	168·25	170·50

If, on the contrary, these points are not reached there is no movement of coin, and debts are cancelled by bills.

Although the statement that there will be a movement of coin in case the specie points are reached is theoretically correct, in practice this does not always follow. There are two reasons for this variation. In the first place it is not always possible to fix the exact cost at which gold can be sent from country to country.

Theory and Practice.

There may be a change of rates, and if this is so the fixed specie points will not be quite correct. In the second place, the movement of gold is not always so free as is imagined. No difficulty is experienced in London in obtaining gold for export purposes, but other countries place restrictions of a more or less stringent character upon their principal banks.

The Bank of France, for instance, charges a premium on gold. This institution can pay its notes in five-franc silver pieces when it is considered necessary, and this retards the outflow of gold. With regard to the premium the charge varies from one to six per mille on bars and foreign coins. If, however, the premium is too high, say 25·40, it would pay money changers to collect all the surplus gold outside the Bank of France and export it. The upper limit would be 25·32 plus the premium, but if very high 25·32 plus the loss of weight in gold coin and the cost of transmission. With regard to Germany the Reichsbank pays a higher rate for foreign gold than other banks, and also bears the loss of interest which arises in consequence of the delay in shipping gold to Berlin. If this bank, however, does not wish to part with gold, merchants are informed that patriotic considerations should be considered before weakening the reserve of the national institution. The bills would then be discounted, if cash was required, at the rate prevailing in the market. If there is a fall in the rate of interest in London below that of Berlin, the buying of bills ceases. For example, if a three months' bill for £1,000 is purchased in Berlin at the rate of 20·610 marks less interest at 3 per cent., the price paid is at the rate of 20·61 less three months' interest at 3 per cent., that is, 20·45, and the buyer must sell the bill before the date of maturity at 20·61 in order to obtain the above rate of interest on his investment.

Bills drawn upon London, then, are the great means by which international debts are settled. But there are also bills in existence

Foreign Bills.

made payable abroad. They are, however, few in comparison with the other kind. It is not worth while for an English debtor to draw a bill payable abroad when it is possible to pay debts by accepting bills payable in London. There is also an advantage by reason of uniformity of practice. The bills drawn upon London do not, as a matter of course, find their way to this country immediately. As it has been pointed out, they form a kind of international currency, and foreigners settle their own differences by means of the same kind of bills. For instance a debtor in Paris will pay his creditor in Berlin by a bill drawn on London. This same bill may quite possibly visit other capitals in turn, and only when it matures will it reach its domicil.

Foreign Centres.

The foreign exchanges are of more importance abroad than in England, because there are more dealings in bills, especially as bills on England form a favourite investment. In various foreign centres a great business is carried on in bills. They are like other commodities as regards their particular value. When the bills are plentiful the price is below the Mint par of exchange; when the demand for them is greater than the supply the price rises above the Mint par of exchange, the ordinary laws of supply and demand being applicable. But it is not by continually altering the rates of interest and discount that the value of a bill is calculated and its present amount ascertained. Calculations are made in the currencies of the countries concerned; these are published, and a result is then arrived at. The constant variations lead to a vast amount of speculation, especially in the foreign centres where they are so largely dealt in.

Another important element in the foreign exchanges is that foreign banks and mercantile firms abroad invest their surplus funds in bills payable in England which mature at various dates, so that the rate of interest prevailing in this country causes continuous fluctuations.

Quotations of the Foreign Exchanges.

On reference being made to the quotations of the foreign exchanges it will be seen that the price is in the foreign equivalent, the only exceptions being Russia, Spain, and Portugal, bills on these countries being expressed in pence, because they quote bills on London in the same manner. Foreign bill transactions are settled on the Royal Exchange twice a week, viz., on Tuesdays and Thursdays, at a meeting of bankers, merchants, and bill brokers, and then the quotations are published in the papers. The following is a specimen, taken from the proceedings of Thursday, the 7th January, 1905:

London Course of Exchange.

Thursday, January 7th, 1905.

London Course of Exchange.

	Time.		
Amsterdam	3 months	12·3⅜	12·3⅞
Rotterdam	—	12·3⅜	12·3⅞
Amsterdam	Short	12·1	12·1½
Antwerp	3 months	25·38	25·44
Brussels	—	25·38	25·44
Germany	3 months	20·61	20·66
Copenhagen	3 months	18·42	18·47
Stockholm	—	18·42	18·47
Christiania	—	18·42	18·47
St. Petersburg	—	$24\frac{13}{16}$	$25\frac{15}{16}$
Paris	Short	25·15	25·20
,, ...	3 months	25·35	25·40
Marseilles	—	25·35	25·40
Zurich Basle	—	25.35	25·40
Vienna	—	24·18	24·28
Trieste	—	24·18	24·28
Madrid	—	$34\frac{3}{16}$	$34\frac{5}{16}$
Cadiz	—	$34\frac{3}{16}$	$34\frac{5}{16}$
Italy	—	25·40	25·47½
New York (payable in gold)	Demand	49¼	49⅜
,, ,, ,,	60 days	$48\frac{13}{16}$	$48\frac{15}{16}$
Lisbon (payable in currency)	3 months	$42\frac{7}{16}$	$42\frac{9}{16}$
Oporto ,, ,,	—	$42\frac{7}{16}$	$42\frac{9}{16}$

	Sight		30 days		60 days
	s.	d.	s.	d.	
Calcutta	1	4	1	3⅞	—
Bombay	1	4	1	3⅞	—
Madras	1	4	1	3⅞	

It will be noticed that two prices are mentioned, the first being for first-class bank paper, and the other for ordinary trade bills. This is similar to the different rates of discount which London banks charge for bills which vary in character. As Lord Goschen says in his "Foreign Exchanges," "Credit is a very important element to be considered in the rate of exchange, and so notorious is this amongst those engaged in international trade that the price at which exporting houses can sell their foreign bills is looked upon as an unerring test of the credit which they enjoy amongst their neighbours."

With regard to Holland the quotations in the above table, showing the equivalent to the English sovereign, are in florins or guilders and stivers, the latter being five cent pieces, so that the rate 12·1 is equal to 12 florins and ·05 cents. The guilder and the stiver are antiquated coins, but the Dutch themselves having adopted the decimal coinage, the quotation is in florins and cents. With Belgium the quotation is in francs and centimes, Germany in marks and pfennigs, Scandinavia in crowns and öre, France and Switzerland in francs and centimes, Austria in crowns and hellers, and Italy in lire and centesimi. With Spain the rate of exchange is given in pence for one peso, with Portugal in pence to 1 milreis. The Russian exchange is the price in pence for one rouble, and the United States in pence for one dollar.

The above table is the London Course of Exchange, and gives the prices at which on an average bills can be obtained for the liquidation of debts due abroad. But in the daily papers there also appear the Foreign Rates of Exchange, and these state the rates at which bills payable in London and drawn on this country can be purchased at the various foreign centres. A comparison is always made with the prices of the preceding day, so that the variations can be noticed at once. It is unnecessary to set out a specimen, but it is to be noticed that there is a slight difference in the method of quotation. Russia, for example, quotes London in roubles to £10, whereas London quotes Russia in pence to the rouble. Spain again quotes London in pesetas to the £1, whereas in the opposite course the quotation is pence to the peso. And the United States takes the dollar and the £ as the basis of calculation, whilst London quotes in pence to the dollar.

In dealing with foreign exchanges the terms " high " and " low " are used with the greatest frequency, and they are calculated to mislead since they express the exact converse of their ordinary meaning. For example, a rise in the French exchange means a fall in the value of the French currency, and is therefore against that country. If a draft has to be purchased on Paris it is advisable to get a high rate because more francs are obtained for the pound sterling. If, however, a draft is being sold on that city, the lowest rate must be obtained, the rule to be observed being " buy high and sell low."

High and Low Exchange.

The terms favourable and unfavourable are also frequently used in respect of the foreign exchanges. They express the idea of gold being either imported into or exported from a country. Thus, the rate of exchange is said to be favourable to England if it is such that it tends to touch the point at which gold will be imported into the country. On the other hand, it is described as unfavourable when the rate is such that gold is about to be exported instead of the international differences being settled by the transfer of bills of exchange. It is obvious that in practice there must be a great fluctuation in the exchanges. If they were always unfavourable to a country it would result in all its gold being ultimately drawn away. But that is most unlikely to happen. In the natural intercourse of nations the exports of one must equal the imports from all the others, and the two sides of the balance sheet agree. This is not, of course, strictly confined to goods. England, for example, has large investments in all parts of the world, and on these investments interest has to be paid. Goods are sent from a country so indebted and bills are drawn upon London. This represents an indebtedness on the part of England. But if the country exporting goods has to pay interest upon investments the bills drawn may be eventually cancelled by the foreign dividend payer handing over to the foreign exporter the amount due and thus cancelling the bill. Such an illustration puts the matter in a very simple fashion, though it is unlikely to occur in practice. But in the multiplicity of transactions the same end is attained, even though there is a transference of bills from country to country in a general liquidation. How such a thing is possible will be seen when, in a later chapter, the work of the Clearing Houses is

Favourable and Unfavourable Exchanges.

considered. In international exchange England occupies the same position that the Clearing House does to bankers.

How a Drainage of Gold is Prevented.

It has just been pointed out that if the course of exchange was always unfavourable to a country, it would be eventually denuded of the whole of its gold. This would be most disastrous. And in the same way it would be a disadvantage for a country to be so flooded with gold that it could not make any profitable use of it. Since London is the centre of financial transactions in connection with the foreign exchanges, it is necessary to notice the action of the Bank of England, which is the holder of the reserve gold of this country. When the amount in reserve is great the discount rate is lowered and gold ceases to flow in. When, on the contrary, the supply is not enough to meet all ordinary necessities, the rate of discount is raised and very shortly there is a return of gold or capital from abroad for the purpose of obtaining a higher rate of interest than exists in other countries. Thus, in time, such a supply is obtained. when rates return to their normal condition and the par of exchange is restored. As Lord Goschen says in the work already noticed, "A high rate of interest attracts capital from abroad, and the effect of this attraction is immediately perceptible in the Exchanges. An export of gold would be the result either of a settlement of indebtedness or of differences in the value of money or of differences in currency."

Short and Long Exchanges.

In the table of the Course of Exchange quoted on a previous page it will have been noticed that mention is made in some cases of two rates, viz., short and three months, the difference in the latter being for interest allowed to the buyer. This rate of interest for commercial paper is about the foreign bank rate, but for bank bills it is usually ½ per cent. less than the bank rate. Thus, a bill on France due in two months for 1,000 francs at the 3 months' rate, interest at 4 per cent., would be as follows :

Francs	1,000	at one month
plus	3·33	= 1 month's interest at 4 %
Francs	1,003·33	

And this at the exchange of 25·35 = £39 11s. 7d.

Or the bargain may be adjusted as follows:

1 month at 4 % is $\frac{1}{3}$ per cent.

$\frac{1}{3}$ per cent of 25·35 is ·0845.

25·35 — ·0845 = 25·2655.

Therefore 1,000 francs at two months at 25·2655 t. q. = £39 11s. 7d. The letters t. q. are an abbreviation of *tel quel*, or net rates, which include the difference of interest.

Rates of exchange between France and England fluctuate in amounts of $1\frac{1}{4}$ centimes or $\frac{1}{2}$ per mille, and in the case of Germany 1 pfennig or $\frac{1}{2}$ per mille. The difference between the rates of short and long-dated paper consists of the short rate, plus interest at the foreign rate, foreign bill stamp, and some contingent allowances which vary, as already stated, according to the credit of the different parties to the bill. It is possible, therefore, to arrive at the long rate as follows:

Long rate—	25·15	short
	·19	Interest at 3 %
	·0150	Bill Stamp
	·0075	Contingencies
	25·3625.	

The difference between long and short exchanges cannot be thoroughly understood unless the rate of interest prevailing abroad is known, this being an important factor in settling the price.

It is obvious that fluctuations in the rates of foreign exchanges could not take place unless there were many causes at work. But at the head of all is credit. If there was no belief in the possibility of the liquidation of debts between nations there would never be any exchange at all. Each article bought or sold would have to be paid for in the currency agreed upon, and each transaction would be separately settled. But this is not so. There is, on the contrary, a huge building up of credit on a monetary basis, and after the exchanges of credit it is only the slight remaining difference that requires to be adjusted by the transfer of bullion from one country to another.

Causes of the Exchanges.

The first great source of the supply of bills, and the consequent demand for them, is trading. It has been pointed out that when a merchant abroad sends goods to England he draws bills upon London; and these bills get into the market. The supply is regulated by the trade conditions. If trade is brisk bills are plentiful, if it is not brisk there is a falling off in the supply. The price, of course, must depend upon the demand and the supply. But it is not solely through the interchange of goods that bills get into circulation. There are subsidiary things to be paid for in connection with the trading done, for instance, the charge for carriage, and the various items of brokerage and commission. Carriage is a most important item, and as England does the greater portion of the carrying trade of the world, there is a constant supply of bills from this source on the market to assist in settling international differences.

Trade Conditions.

The state of the market as to exchanges is affected by the varying seasons of the year, and certain particular causes may lead to a rapid fluctuation in quotations. Take, for instance, the New York Exchange. The most prominent factor in connection with it is the shipment of cotton and wheat to this country, and the effect is to cause the exchanges to be against us during the last four months of the year.

In America and the East bills on London command a better price because there is more demand for such bills; thus, consignments from Australia to America are paid for by bills on London. The New York importer opens a documentary credit in London in favour of the exporter or shipper from Australia.

But the fluctuations in rates are often steadied by operations on the parts of dealers. Suppose, for instance, that England has had large commercial transactions with two European countries. From the first it is presumed that the imports have been greatly in excess of the exports, and that there is a large balance to be paid, and from the other it is exactly the reverse. The differences cannot be settled by an exchange of credits, since they are too great, but it is quite possible for the country indebted to buy bills from the other country which is our creditor, and to settle the whole by sending them on to London. This is a means of establishing an equilibrium after the exchange has been favourable or unfavourable for any length of time.

Rates Steadied.

In addition to trade conditions there are other influences at work which affect the rate of exchange. One is the extent of the investments of English people in foreign countries. It is estimated that some thousands of millions of British capital have found employment abroad. The payment of the interest has to be made periodically. Though calculated nominally in money it is obvious that the interest is really paid in kind. This leads to the circulation of more bills in payment, and at the times of payment of the interest the supply on the market is greater than at ordinary times. In the same way speculations abroad have a similar tendency to cause the rates of exchange to fluctuate.

Investments and Speculations.

Again banking influences are not without considerable effect. There is a profit to be made out of these various bill transactions, and foreign bankers are not slow to take advantage of it. Indeed, it is quite a common thing for foreign houses to invest their funds in bills drawn on England, and to regard them as liquid assets since they can be converted into cash at short notice. They form a convenient investment because they yield interest between the date of issue and maturity. In fact, bill transactions are always based upon the price of such documents on demand, less the three months' interest. The rate of interest is always fixed by that which rules where the bill is payable, so that bills are bought with the view of obtaining the higher rate of interest in the foreign country. As a rule the difference of the rate between two countries is divided between the buyer and the seller.

Banking Influences.

The following is an illustration of the profit accruing when a bill is sold in the market. For example, if a Paris banker bought a bill on London due in three months' time he would

Profit on Selling Bills.

pay	£1,000	0	0	
less	12	10	0	= interest at 5%
	£987	10	0	at 25·35.

When the rate is reduced to 4 per cent. at the end of a month, the rate of exchange being the same, in case of sale the result would be—

	£1,000	0	0	
less	6	13	4	
	£993	6	8	at 25·35,

which shows a profit of £5 16s. 8d. In such a case the bill would be sold, and if there are numbers of such bills for sale, the seller would take less in order to secure a fair profit. Another method of effecting the transaction would be to take the bill at its full value, and to adjust the difference in interest by the rate of exchange.

Circular Notes.

The issue of circular notes by banks, especially during the summer months, leads to the circulation of English paper money on the continent in large quantities. Just as bankers are willing to invest in English bills, so are they always ready to take up circular notes, and the number of them in existence helps to affect the money market generally, and therefore to influence the foreign exchanges.

Arbitrage Dealings.

Another influence is arbitrage dealings. This name is applied on the English Stock Exchange and the French Bourse to the calculation of the relative simultaneous values of any particular stock on the market, in terms of the quotations on one or more other markets, and to the business founded on such calculations. In the strict sense arbitrage may be defined as a traffic consisting of the purchase or sale on one Stock Exchange, and simultaneous, or nearly simultaneous resale or re-purchase on another Stock Exchange of the same amount in the same stocks or shares. Government stocks, British Consols excepted, are the chief subjects of arbitrage, but there are other branches, dealing with bullion, coin, and bills. The last of these falls within the province of bankers. In practice the operations are of an extremely intricate character, and require the most careful watching of the market.

Depreciated Currency.

It is almost unnecessary to refer to the fact that the ratio of the exchanges is most seriously affected by the state of the currency of the country. The Mint par of exchange is calculated upon the supposition that the state of the currency is normal. But if any changes take place, or if events happen which alter the condition of the currency, the exchange is quickly affected. It is well known how the currencies of a few of the countries of Europe have been depreciated and also those of several South American States. Their condition always requires careful consideration, and any change at once affects the market.

In his "Elements of Banking," MacLeod has pointed out the seven causes which affect the transmission of bullion from one country to another. They are as follows:—(1) The balance of payments to be made to or by it, (2) The state of the Foreign Exchanges, (3) The state of the currency, (4) The remittances made to this country, as the commercial centre of the world, to meet payments due to other countries, (5) The political security of this and neighbouring countries, (6) The state of the Money Market, or the comparative rates of interest in this and neighbouring countries, and (7) The free or prohibitive commercial tariffs of this and foreign countries, as they permit or forbid our manufactures to be imported into them. After an examination of each of these causes, he considers the means of correcting an adverse exchange. He says, "There are three great economic quantities, products, bullion, and debts, all seeking to be exchanged, all flowing from where they are cheaper to where they are dearer. But all this vast superstructure of credit—this mighty mass of exchangeable property—is based upon bullion. Different methods of doing business require different quantities of bullion; but however perfect and refined the system may be, we must come at last to a basis of bullion, as its moderator and regulator. If, therefore, the bullion be suffered to ebb away too rapidly, the whole superstructure is endangered, and then ensues one of those dreadful calamities, a monetary crisis.

Macleod on the Exchanges.

"We have endeavoured to explain the different causes which produce an adverse exchange, so that if one takes place the proper corrective may be applied. If it be caused by a depreciated currency, there is no cure but a restoration of the currency to its proper state.

"When, however, it arises from a balance of indebtedness from commercial transactions there are but two methods of correcting it, an export of produce and a rise in the rate of discount.

"It used to be a doctrine often asserted that an adverse exchange was in itself an inducement to export, on account of the premium at which bills could be sold. What truth there was in this doctrine can only be known to those actually engaged in such operations. But a very much more certain means of producing an export of goods is a lowering of their price. . . .

"We have observed that a difference in the rate of discount between any two countries, more than sufficient to pay for the transmission of bullion, will produce a flow of bullion from one to the other. But as all the cost of transmission both ways falls on the operator, the difference requires to be more considerable than might appear at first sight. And if they are three months' bills, the profit reaped will be only one-fourth of the apparent difference. Thus Mr. Goschen says there must be a difference in the rate of interest of 2 per cent. between London and Paris before the operation of sending gold over from France, for the sake only of the higher interest, will pay. And between other continental cities, of course, the difference may be much greater.

"But whatever the difference may be, the method is absolutely certain. Directly the rate of discount rises here sufficiently, people cease to export bullion from here, and the continental bankers and brokers increase their demand for English bills. And as the rate rises the demand will increase, until at last the price reaches the specie point, and gold begins to flow in; and as the rate rises more, more powerful will be the attraction, until at last the necessary equilibrium is restored between bullion and credit."

CHAPTER V

THE ARITHMETIC OF THE EXCHANGES

IT has been stated that in order to ascertain the value of foreign coins in terms of the English sovereign, they must be reduced to a common denominator by the amount of gold and silver which such coins contain. This is worked out by what is known as Chain Rule, which consists of a series of equations arranged in two columns, each equation expressing the sequence or relationship between the two quantities, the first equation being a statement of the question, and each succeeding equation having for its first term quantities of the same kind and denomination as the last term of the preceding equation, the last term of the concluding equation being in terms of the answer required. Set out in this way the product of the right hand numbers divided by the product of the left hand numbers will furnish the required quantity.

Chain Rule.

The following examples will afford practical demonstration of the working of the Chain Rule.

What is the value of a sovereign expressed in terms of the French currency ?

How many francs	= 1 sovereign ?
1 sovereign	= 7·98805 grammes.
If grammes, English standard, 12	= 11 grammes fine ;
if grammes fine, 900	= 3100 francs,

$$\text{we get } \frac{7{\cdot}98805 \times 11 \times 3100}{12 \times 900} = 25{\cdot}2215 \text{ fcs.}$$

What is the value of the sovereign expressed in marks if 500 grammes of pure gold are converted into 69¾ twenty-mark pieces nine-tenths fine ?

How many reichsmarks	= 1 sovereign ?
If sovereign 1	= 7·98805 grammes standard ;
if grammes standard 12	= 11 grammes fine ;

11 grammes fine, 500 = 1395 reichsmark,

$$\therefore \frac{7{\cdot}98805 \times 11 \times 1395}{12 \times 500} = 20{\cdot}43 \text{ marks}$$

What is the value of 285 Mexican dollars expressed in terms of English money, the Mexican dollar weighing 377·181 grains of silver and the sovereign 113·0016 grains of gold the ratio between the two metals being 33·31, and the exchange broker's commission $1\frac{1}{2}$ per cent. ?

? pounds = 285 dollars.
dollars 1 = 377·181 grains of silver.
silver 33·31 = 1 gold.
Grains of gold 113·0016 = £1
£100 = £98·5.

$$\therefore \frac{285 \times 377{\cdot}181 \times 1 \times 1 \times 98{\cdot}5}{1 \times 33{\cdot}31 \times 113{\cdot}0016 \times 100} = £28\ 2s.\ 8d.$$

Find the value of 950,000 pesos Argentine bank notes when the premium in gold is 250, the gold peso 22·4012 grains, the sovereign 113 0016 grains, and broker's charges for commission $1\frac{1}{2}$ per cent.

? (pounds) = 950,000 paper pesos.
paper pesos 250 = 100 gold pesos.
gold peso 1 = 22·4012 grains.
grains of gold 113·0016 = 1 sovereign
100 = 98·5 discount on exchange

$$\therefore \frac{9\,50{,}000 \times 100 \times 22{\cdot}4012 \times 1 \times 98{\cdot}5}{250 \times 1 \times 113{\cdot}0016 \times 100} = £74200{\cdot}44.$$

Find the value of 250 francs when 20 lbs. troy of standard fine equals $934\frac{1}{2}$ sovereigns, and from one kilogramme of gold $\frac{9}{10}$ fine (one kilogramme = 2·679227 pounds troy) are coined 3100 francs.

? (pounds) = 250 francs.
3100 = 1 kilogramme gold.
10 = 9 ,, fine.
1 = 2·679227 lbs. fine.
11 = 12.
20 = 934·5 pounds.

$$\frac{250 \times 9 \times 2{\cdot}679227 \times 12 \times 934{\cdot}5}{3100 \times 10 \times 11 \times 20} = £9{\cdot}910.$$

The following is an example of an exchange operation, bills being purchased in London and remitted to Paris. In order to calculate the interest the amount of the bill is multiplied by the number of days, and then one day's interest gives the result. Purchased in London on 28 October, 1904, and remitted to Paris.

fcs. 2303·82	Paris for	28 Dec.	25·27½	£91	3	0
3101·49	,,	2 ,,	25·25	122	16	8
8230·15	Rouen	28 ,,	25·30	325	6	0
100·00	Marseilles	15 Nov.	25·20	39	1	9
885·00	Paris	,,	25·20			
fcs. 14620·46				578	7	5
	1 per mille Brokerage ..			..	11	7
				£578	19	0

The credit note returned would be as follows:

				Days.	Nos.	Stamps.
fcs. 2303·82	Paris for	28 Dec.		60	1382	1·50
3101·49	,,	2 ,,		34	1054	2·00
8230·15	Rouen	28 ,,		60	4938	4·50
100·00	Marseilles	15				
885·00	Paris	17	167			
	(stamped)					
14620·46			7541			8·00
60·36	Interest at 2½ per cent...				..	52·36
14560·10						60·36
14·56	1 per mille brokerage					
14545·54						

This remittance can be balanced by a draft at sight on London as follows: £578·7 at 25·15 = fcs. 14545·54, or bills may remitted for discount.

£	s.	d.			Discount. £	s.	d.
100	0	0	for 12 Dec.	43 days		4	9
2'0	0	0	,, 15 ,,	46 ,,		12	3

£	s.	d.						£	s.	d.
129	5	7	,,	3 Jan.	65	,,			9	6
110	0	0	,,	30 ,,	92	,,			11	3
579	5	7					at 2 % =	1	17	9
1	17	9	discount							
577	7	10								
	19	2	. Demand Draft on London							
£578	7	0	at 25·15 = fcs. 14545·54.							

This transaction shows a small loss, and the Paris banker would settle it by remitting a small draft to his London agent.

It will be noticed that the credit note returned gives *tel quel* or net rates, interest having been deducted and a sight bill remitted to London. Tables are prepared which show the net rates between say, London and Paris, and a corresponding price of a three months' draft on Amsterdam in Paris in order to ascertain the cheapest method of making remittances. For example, if the price in London of a 3 months' draft on Amsterdam is 11·975, the equivalent in Paris is 211⅛, the short rate between London and Paris being 25·15. The tables show the arbitrated net rate in Paris as 11·912. It is, therefore, cheaper to buy a bill on Amsterdam in London by ·063 cents which equals 5 per mille. In order to ascertain the equivalent rates of exchange they must be reduced to a common denominator bychain rule. For example,if the rate in Paris of bills on Amsterdam is fcs. 210 for 100 florins, and the rate in London is 12 florins, what is the exchange between Paris and London ?

How many francs	=	£1 sterling
If Sterling £1	=	12 florins
If florins 100	=	210 francs

$$\therefore \quad \frac{1 \times 6 \times 21}{1 \times 5} = 25{\cdot}20 \text{ francs}$$

With regard to shipments of bullion between various countries the cost of transmission is known almost to a fraction, so that a merchant in London can ascertain whether it is cheaper to remit bullion, purchase a draft, or request his correspondent to draw upon him.

For example bullion shipments in London realise in Paris

For sovereigns	fcs.	25·05
„ Gold Bars	„	25·10

Rates of exchange :

London on Paris, short		$25{\cdot}17\frac{1}{2}$
Paris on London	„	25·20

If 25,000 francs have to be paid the various equivalents would be as follows :

For sovereigns fcs. 25,000 at	25·05	£998	0	1
„ Gold bars	25·10	996	0	4
„ Remittance to Paris	$25{\cdot}17\frac{1}{2}$	993	0	10
„ Draft from Paris on London	25·20	992	1	3

It is, therefore, cheaper for the merchant to authorise his correspondent to draw upon him.

What is the short exchange between London and Paris when three months' bills upon Hamburg are bought at 20·50 marks, remitted to Amsterdam, where they are sold at 58·95 fls. per 100 marks, and proceeds remitted to Paris in cheques at 47·75 marks per 100 francs.

? (francs) = £1
£1 = 20·50 marks (3 months).
Marks 100 = 58·95 florins
Florins 47·75 = 100

$$\text{Therefore } \frac{20{\cdot}50 \times 58{\cdot}95 \times 100}{1 \times 100 \times 47{\cdot}75} = \text{francs } 25{\cdot}31$$

What is the cost of a remittance of 25,000 florins from New York to Amsterdam by means of drafts *vià* London, Paris, and Amsterdam, when the following rates of exchange are quoted in New York ?

London	= $\$4{\cdot}88\frac{1}{2}$
Paris	= 25·30
Paris on Amsterdam	= 210

(A commission of $\frac{1}{4}$ per cent. is charged for brokerage at each centre).

Dollars required = 25,000 florins
100 = 210 francs
100 = $100\frac{1}{4}$ francs, including commission

$$2{,}530 = 100\tfrac{1}{4} \text{ pounds sterling}$$
$$\text{One pound} = 4{\cdot}88\tfrac{1}{2} \text{ dollars}$$

Therefore $\dfrac{25000 \times 210 \times 401 \times 401 \times 4885}{100 \times 100 \times 2530 \times 4 \times 4 \times 1000} = \$10187{\cdot}60$

With regard to arbitrated pars of exchange as applied to bullion, it is necessary to ascertain the exact weight of the foreign coin and also its fineness as compared with the English sovereign. When this is known the equivalent can be obtained.

A method of working is by means of a fixed number which does not vary, so that the arbitrated rates at different prices can be ascertained. This fixed number is obtained by multiplying the numbers of the fixed terms of the equation together and dividing the products of the right-hand terms by the products of the left-hand terms.

Example. Find the arbitrated rate of exchange between London and New York, the United States, coinage being as follows \$10 = ·5375 ounces of gold 900 fine or \$800 = 43 ounces of the same fineness.

$$\begin{aligned} ?\ (\text{dollars}) &= 20 \text{ shillings} \\ 77\tfrac{3}{4} &= 1 \text{ oz. standard} \\ 12 &= 11 \text{ oz. fine} \\ 9 &= 10 \\ {\cdot}5375 &= \$10 \end{aligned}$$

$$\frac{20 \times 11 \times 10 \times 10}{12 \times 9 \times {\cdot}5375} = 3789836 \text{ fixed number}$$

$$\therefore \frac{3789836}{77\tfrac{3}{4}} = \$4{\cdot}8744$$

The variable number, $77\tfrac{3}{4}$, represents £3 17s. 9d. per ounce, the price of bar gold in London.

The greater part of the calculations that have to be made in connection with foreign bills consist in the mere reduction of foreign money into English money. They are of an extremely simple character and call for little comment. Thus, a banker in Paris draws a bill for 3,200 francs on a merchant in London, what will the latter obtain if the draft is sold at 25·15 ?

$$\text{As } 25{\cdot}15 : £1 :: 3200 : \text{amount required}$$

$$\therefore \frac{3200}{25{\cdot}15} = £127\ 4s.\ 8d.$$

The Dutch Exchange is quoted in florins and stivers so that it is necessary to reduce stivers into cents, the florin being equal to 20 stivers or 100 cents.

Convert into pounds sterling 500 florins 50 cents at the exchange of 12·1.

$$12 \text{ florins } 1 \text{ stiver} = 12 \text{ florins } {\cdot}05 \text{ cents.}$$

$$\frac{500}{12{\cdot}05} = £41\ 9s.\ 10d.$$

The Austrian Exchange is quoted on a gold basis, the unit ot value being the krone or crown which weighs ·3387 grammes 900 fine.

Find the proceeds of a draft on Vienna for £1,500 10s. at the exchange of 24·20

$$1500{\cdot}5 \times 24{\cdot}20 = 36316{\cdot}1$$

In order, however, to make the calculations rapidly and with as little expenditure as possible of space in the shape of figure, it is usual to work out such problems by means of abbreviated methods. The following are examples :

Find the sterling equivalent of 18914·75 francs when the exchange is 25·3725.

~~25·3725~~	~~18914·75~~	
10, 1, 4, 9	7565900	745·482
	46160	
	55640	
	4895	
	835	
£745 9s. 8d.	23	

What is the value in English money of 1,000 Dutch florins and 75 cents when the exchange is $12{\cdot}3\frac{5}{8}$? (The exchange with Holland, it will be remembered, is quoted in florins and stivers, and 1 stiver is equal to 5 cents.)

3·625 stivers = 18·125 cents.

~~12·18125~~	~~1000·75~~		
9, 7, 4, 5	800600	—	82,155
	2100		
	1510		
	536		
£82 3s. 1d.	49		

A merchant pays a debt of 4,370 milreis in Portugal for £969. What is the rate of exchange in pence per milreis?

£969 = 232,560 pence.

Therefore 4,370 milreis = 232,560 pence.

$$1 \quad ,, \quad = \frac{232{,}560}{4{,}370} = 53{\cdot}21\text{d.}$$

The rate of exchange is 53·21 pence per milreis.

If 11·60 Dutch florins are given for 24·40 francs, 350 florins for 405 German marks, and 58 marks for 32 silver roubles, how many francs should be given for 800 silver roubles?

$$1 \text{ Silver Rouble} = \frac{58}{32} \text{ marks.}$$

$$1 \text{ Mark} = \frac{350}{405} \text{ florins.}$$

$$1 \text{ Florin} = \frac{24{\cdot}40}{11{\cdot}60} \text{ francs.}$$

$$\therefore 1 \text{ Silver Rouble} = \frac{58}{32} \times \frac{350}{405} \times \frac{24{\cdot}40}{11{\cdot}60} \text{ or } 3{\cdot}3 \text{ francs.}$$

$$\therefore 800 \text{ Silver Roubles} = 800 \times 3{\cdot}3 = 2{,}640 \text{ francs.}$$

What is the value of £1 at Paris if a bill at Amsterdam for fls. 12·10 sells for £1 and 9 fls. 45 cents are worth 20 francs at Paris?

£1 = 12·10 florins.

fls. 9·45 = 20 francs

$$\text{Therefore } \frac{12{\cdot}10 \times 20}{9{\cdot}45} = 25{\cdot}60 \text{ francs.}$$

£1 = 25·60 francs.

CHAPTER VI

THE MONEY MARKET

THE name Money Market is that given to the great organisation for the loan of capital. It is also used as descriptive of the general operations of certain men or bodies of men who are seeking means by which capital can be utilised, either by borrowing or by lending money. The Market is not confined to any particular place, but it is rather composed of those persons whose special financial business is conducted in that part of the City of London which has the Bank of England as its centre. The Bank of England itself is most intimately connected with the Money Market, although it is not generally spoken of as being a part of it. This is because it holds the gold reserve of the country, and because it has, besides this reserve, large resources at its command, either on Government or on private accounts, the latter amounting at the present time to £48,000,000. In addition to its own stock of gold, that is, the gold which comes to it in its own way of business, the Bank keeps to a large extent the reserves of the London banks. These latter institutions retain no more coin in their possession than is required for their daily requirements and for ordinary business transactions. The remainder is deposited at the Bank of England, and is always available for withdrawal at the shortest notice. Again the Bank is compelled by its charter to buy all gold that is offered to it for sale at £3 17s. 9d. per ounce. It is, in fact, the great recipient of gold, and its position as such allows it to exercise the greatest influence when financial operations of any magnitude are concerned.

Money Market.

The special business of the Money Market is the dealing in loans which are granted for short periods. Although there are large deposits made by the majority of banks with the Bank of England, such being required, amongst other things, for the purposes of Clearing House collections, the amount which is retained is always more than sufficient to meet the average demands of their customers. If the money remains in the coffers of the banks it earns no interest. If it is utilised in such a manner that it can be recalled at short notice it is almost as good

Business of the Market.

as though it was actually in hand, and at the same time it is profitably employed. This is the fund, sometimes called money at call, which is dealt with in the Money Market. Every bank is able to contribute some portion in a general way, and in the aggregate the total amount available for short loans is enormous. The English banks, then, are the principal persons in the Money Market who have money to lend. But they are not the only ones. Foreign banks find the London Money Market a profitable place for dealing, and there is a large amount of foreign capital always available for loans. On the other hand, there are always plenty of borrowers who are desirous of obtaining advances to carry on their business, and who would be unable to do so if they had not the means of finding the necessary funds for their various operations. It is the business of the Money Market, therefore, to organise and to regulate this mutual borrowing and lending, by fixing the rate of interest at which loans can be made.

Main Influences.

The main consideration which influences the state of the Money Market is, of course, the amount of capital which is available for loans. Money is lent out at interest, and the amount of interest is the price paid for the use of it. And the price to be paid for the use of money is dependent upon supply and demand, just as in the case of any other commodity. When there is an abundance of capital loans are granted at a low rate of interest; when, on the contrary, there is a scarcity, the rate of interest is high. In point of fact the rate of interest is always an accurate indication of its scarcity or otherwise. Another important element is the state of credit, because there are large amounts of capital deposited in banks, and any feeling of distrust is sure to have a serious effect upon the total fund, especially by withdrawals, and this will be at once reflected in prices.

Credit.

Our methods of trade are largely based on the credit system. A takes B's cheque because he believes it will be paid, or A accepts bills drawn at 3 months' date, in payment for goods, because he feels convinced that he will be able to pay the same at maturity. Again, A has such confidence in B that if B is in want of actual cash, he discounts B's acceptance either at his bank or in the money market. For this privilege B pays the discounter interest to the date of maturity, and receives actual cash less the amount of interest or discount.

Another important factor to be considered in connection with the Money Market is the actual amount of gold held in this country, which represents the ready money required to meet great liabilities payable on demand. This has an enormous influence since our system of finance is built up on a small gold basis, and any sudden diminution in the amount of the precious metal must at once affect the value of capital in the market. There is, as it has been stated, practically only one large stock of gold in existence, and that is held by the Bank of England. If any great drain is made upon it, either for currency requirements at home, or for export purposes to pay for goods purchased from abroad, the reserve which can be drawn upon is restricted and the rate of interest goes up. But so long as credit is good this fluctuation quickly rights itself. Capital is attracted by high rates of interest, and immediately there is an offer of a higher rate gold is attracted from abroad and the equilibrium is restored. It is the business of the Bank of England to keep a most careful eye upon its reserve, and to prevent any rapid change in its amount by raising or lowering its rate of interest according to requirements.

Effect of Gold Movement.

The effect of a withdrawal of bullion from the Bank of England is shown in the Return of the Bank, in the following manner :

A has a deposit of £500,000, and wishes to withdraw gold to that extent. Bank notes for the amount are taken from the reserve and returned to the issue department ; these notes are cancelled, and sovereigns which are held against them are given in exchange.

ISSUE DEPARTMENT.

Notes	48·5 millions	Securities	18·0 millions
		Gold	30·5 ,,
	48·5 ,,		48·5 ,,

WITHDRAWAL.

Notes	48 millions	Securities	18 millions
		Gold	30 ,,
	48 ,,		48 ,,

BANKING DEPARTMENT.

Capital and Rest	18 millions	Government securities	12 millions
Deposits	40 ,,	Other securities ..	30 ,,
		Notes	15 ,,
		Gold	1 ,,
	58 ,,		58 ,,

WITHDRAWAL.

Capital	18 millions	Government securities	12 millions
Deposits	39·5 ,,	Other securities..	30 ,,
		Notes and gold (Reserve)	15·5 ,,
	57·5 ,,		57·5 ,,

The money that is available for loans is often spoken of as the "short loan fund." It is borrowed, in the main, by a number of individuals who are known as bill brokers. It has just been stated that much of the business of the world is carried on by a system of credit. In the majority of transactions of any dimension it is customary for bills to be drawn. There are, consequently, enormous numbers of such bills in existence. But it is not always convenient for the payee of a bill to wait until it matures. He wants cash at once. He therefore sells or discounts the bill. There are many banks which do the business of bill discounting, but it is the custom for foreign banks to keep this business as their monopoly in their own countries. But it is not so in England. There has sprung up in London a body of middlemen who act as intermediaries between the holders of bills and the banks. These are the bill brokers. The brokers buy up as many bills as they can afford to do, and generally at a lower rate than that charged by the Bank of England, but their own capital is quite inadequate to deal with the large numbers which are always on sale. They are compelled, therefore, to apply to the banks for accommodation, and this accommodation is granted by means of short loans. The loans are often made for exceedingly short periods. Sometimes they may take the form of seven-day

Bill Brokers.

loans, but frequently money is lent from day to day, and on occasions from one afternoon until the following morning, loans of the last-named kind being known as "over-night" money. It is of the utmost importance, therefore, for the bill brokers to study the state of the market, so that they can negotiate these loans on the most advantageous terms.

When the bill brokers borrow money from the banks they usually deposit bills of exchange to cover the loans, but sometimes they hand over documents which are known in the market as "floaters," that is, securities to bearer, such as Consol Certificates, Exchequer bonds, or Indian railway bonds as collateral security for the repayment of the money at the specified time.

Call Money.

The money that is thus advanced by the banks to bill brokers is often spoken of as day-to-day money, but it is also known as call money, being so named because it is practically able to be called in at the shortest possible notice. It is most essential that banks should not lend even their unemployed capital for any considerable length of time. They must be prepared for sudden emergencies. The rate of interest charged will obviously be higher when the loans are granted for, say, seven days than when they are made merely from day to day.

Movement of Capital.

It is always the object of those who borrow money in the Money Market to endeavour to obtain the same at the lowest possible rate of interest. For this purpose it is of importance that there should not be great fluctuations in the amount of loanable capital. If at any time there are sudden demands for gold the rate of interest rises. With the demand for gold there are withdrawals from the reserve of the Bank of England. But the Bank always keeps a strict eye on its reserve, and when it perceives that its stock of gold is becoming less, it also raises its own rate, and by thus attracting gold from abroad the equilibrium is soon restored. But in spite of every effort rapid fluctuations do take place, and it is one of the principal parts of the business of the bill brokers to study the state of the market, and then for them to settle the rates at which business can be transacted. They are generally in a position to know the total amount of the floating capital which is loanable, and the movements of the same are the causes which fix the rates to be charged.

The Money Market is always affected when there is a large subscription for a public loan. When the last Government issue of

Effect of Public Loans.

Consols took place, the banks were denuded of capital, and bill brokers had to apply to the Bank of England for the deficiency. The market, however, avoids making applications to that institution as far as possible, because loans are only made by it for fixed periods, and a higher rate of interest is charged. Again, it is not desirable to borrow money for a long period since daily fluctuations in the rate of interest are considerable; and as transactions are based upon very fine quotations, the profits would suffer considerably if large amounts were borrowed at high rates. For this reason the bill brokers, when necessary, take the bills they have discounted by means of their own capital to the various banks, and get them to re-discount the same at market rates. This relieves them of the risk of borrowing at a comparatively high rate from the Bank of England.

How Rates are Settled.

The rates for money and discounts are settled by the bill brokers who, as we have stated before, have some idea as to the state of the market by finding out whether the banks and money brokers are short or otherwise. We then see in the daily papers a quotation of the rates as follows:—

Market Rates of Interest.

MARKET DISCOUNTS.	Per cent.	
60 days Bills	$2\frac{13}{16}$	
3 ms. Bank Bills ..	$2\frac{13}{16}$	$2\frac{7}{8}$
4 ,, ,, ,, ..	$2\frac{7}{8}$	
6 ,, ,, ,, ..	$2\frac{15}{16}$	3
3 ms. Fine Trade Bills	$3\frac{1}{4}$	$3\frac{1}{2}$
4 ,, ,, ,, ,,	$3\frac{1}{4}$	$3\frac{1}{2}$
6 ,, ,, ,, ,,	$3\frac{1}{4}$	$3\frac{1}{2}$

BANK AND MONEY RATE.	Per	
Bank Rate	4	
Bank of England Loans	$4\frac{1}{2}$	
Bankers' Deposit Rate	$2\frac{1}{2}$	
Brokers' Dept. Rate Call	$2\frac{1}{2}$	
,, ,, Notice	$2\frac{3}{4}$	
7 day Market Loans ..	$2\frac{1}{4}$	$2\frac{1}{2}$
Day to day Money ..	2	$2\frac{1}{4}$

If these rates are studied it will be noticed that the difference is very small between various classes of bills, and this represents the degree of risk attached to discounting such documents.

Bank bills are bills of exchange drawn or accepted by banks which will be paid without doubt at maturity, but there is an element of uncertainty with regard to fine trade bills, and therefore a higher rate of interest is charged.

The Bank of England charges $4\frac{1}{2}$ per cent. for loans, which is 2 per cent. higher than the rate prevailing for 7 day loans. The Money Market, therefore, makes every effort to find accommodation so as to avoid applying to that institution. In order to attract deposits the bill brokers offer ¼ per cent. more than the banks for money left at notice, whilst day-to-day money is only quoted at 2 to 2¼ per cent., which shows that the supply of capital is greater than the demand.

The banks take an important part in the organisation of the money market since they hold the greater portion of the funds which are used for the discounting of bills. The daily applications of the bill brokers enable them to understand the forces at work which are tending to make money cheap or dear. There must always be a floating surplus of capital, and it is the movement of a comparatively small amount which settles the price. In order to fix the price the bill brokers meet regularly, and, after they have discussed the question of supply and demand, a statement is issued which is published in the daily papers.

Without a knowledge of the various forces which are at work it is impossible to gain a clear insight into the working of the money market.

Concentration of Capital.

The concentration of capital in various centres of the world for the purpose of being utilised at a profit is a most important factor. We have markets for the control of capital at London, Paris, New York, and Berlin, since there are large deposits at those places held by various banking houses. The great number of transactions at foreign centres is for the purpose of making a profit on bills drawn on England, which has been considered under the heading of foreign exchanges. Capital, like any other commodity, gravitates towards the most profitable market. If the rate of interest is higher in London, then money or capital is sent here for investment.

Influence of Foreign and Stock Exchanges.

Such movements to and from a country are reflected in the foreign exchanges, which must always be considered in order to find out the various forces at work. Again, the Stock Exchanges throughout the world are important factors because there are what is known as "inter-Bourse" securities, viz., securities which are saleable not only in London, but also at Paris, Berlin, or New York. In order to pay for losses, say in Paris, securities are sold in London for the Paris account, which practically means that capital is transferred to

France. This movement naturally reduces England's stock of gold and causes a rise in the rate of interest.

Formation of Trusts.

Another illustration may be taken from the recent formation of trusts in America, which has caused large investments of capital in that country, and has had a considerable effect on the Money Market.

Trade Conditions.

The condition of trade is the most important factor of all, because with activity in trade there is more demand for capital in order to take advantage of rising prices. This action is at once reflected in the Money Market by a rise in the rate of interest. On the other hand, when trade is depressed, there is a less inquiry for loans and rates decline.

Position of our Principal Industries.

The money articles of the daily papers usually contain some reference to our principal industries; wheat, cotton, steel, iron, and copper may be taken as practical illustrations, and their condition in relation to capital has an important effect. Agriculture is still one of the greatest industries of this country, and when it is depressed the deposits in banks in agricultural districts are diminished. The autumnal demand for gold at the Bank of England is largely due to agriculture, because with the in-gathering of the harvest a larger amount of money is required to pay for labour.

Trade Speculation.

Speculation in various commodities is bound to re-act upon the Money Market, because without capital it is impossible to maintain prices, so that banks in some degree become responsible for the rise and fall in the price of commodities.

There was an illustration of this some years ago when a ring was formed for the purpose of getting control of the copper production For some time a great inflation of prices took place, but subsequently it was found impossible to absorb the world's supply, and then there was a sudden reaction. Many French banking houses had to suspend payment in consequence of the great fall in the price of this commodity, and the collapse had very considerable effects upon our Money Market. In order to meet losses on the continent there was a sale of securities in this country on French account to pay for the liabilities incurred.

The steel and iron industries are intimately associated with the prosperity of this country, and a depression in these trades affects banks, the profits of which are dependent upon the loan of capital. If these industries do not require the capital, there is a large surplus in the Money Market, and in consequence the rates of interest gradually decline. When trade revives more capital is required, and with the increased demand for capital there is a gradual increase in the value of money.

Position of Steel and Iron.

Another important factor is the political condition of a country. A period of tranquillity is always to be desired by those who have control of the Money Market, because peace means an absence of violent fluctuations. The last war in South Africa is a practical illustration of a period of high rates and a depreciation in the value of securities. An expenditure of £250,000,000 on a war naturally involves a depression in trade. The recent war between Russia and Japan had considerable effect upon the state of the money market, because there was a sudden fall in prices, especially in the securities of these two countries. The merchants of Japan had been convinced that war was inevitable, and large quantities of silk were thrown upon the market, and prices in consequence were depreciated.

Politics.

A change of Government also generally affects the market, because there is a feeling of uncertainty in the air as to the future policy of the Government.

The state of public finance cannot be neglected, since the amount of the surplus or the deficit at the end of each financial year has to be adjusted. All payments on account of Income Tax are made before the 5th April of each year, so that in the early part of the year there is a stringency caused by the absorption of capital. Money is transferred from the various banks to the Bank of England and that institution becomes a lender of capital, unless the money is required by the Government for other purposes.

Public Finance.

In order to meet temporary requirements the Government issues Treasury bills, and the rate at which they are allotted gives one some idea as to the value of money for a certain period. For example, if six months' bills for £1,000,000 are allotted at £98 10s., this means that the market expects a low average rate of 3 per cent. for a period of six months.

Such bills are rendered necessary since there are payments to be made at various seasons of the year when the Exchequer receives very little money. Securities of this kind are a favourite investment for continental banks, and it is sometimes found that bills have changed hands at £2 10s., per cent., the allottee at £98 10s., having possibly sold his allotment for £98 15s. The payment for the same must of necessity withdraw a certain portion of the surplus floating capital of the country, and so affect the rates of interest.

India Council Money.

It is often found that reference is made to India Council money, which represents the balances held in this country on behalf of the Indian Government. There is a gradual accumulation which is not required for a certain time. The broker who is employed by the Government for this purpose lends such capital in the market by the same methods as those employed by banks. It is generally stated in the daily papers on what terms the India Council has been able to lend its surplus funds.

Indian Government Deposits.

The reserves of the Indian Government are held by the Bank of Bengal, and a recent return states that there was an increase of forty-five lakhs of rupees in the cash reserve, the trade demand having declined from ten to twenty lakhs, while there was an increase of about fifteen lakhs of rupees in the Treasury balances. The recent depression in the tea trade, which was partly caused by an increase in the tax on that commodity, has no doubt had some effect in this country, and this depression was soon reflected in the balances of the Indian banks. The note circulation was $37\frac{1}{2}$ crores of rupees against which were held $10\frac{3}{4}$ crores silver in stock and $\frac{1}{4}$ crores in transit, whilst the holding of gold was rather higher at $16\frac{1}{2}$ crores. The Indian Treasury balance had increased from one million to fifteen million crores of rupees.

This statement shows what is the position of Indian finance. In recent years the Government has been accumulating gold in order to adopt gradually a gold standard. A few years ago, in consequence of the great fall in silver there were considerable fluctuations in the value of the rupee, but now these have been reduced to a narrow margin.

From the returns of the New York Associated Banks it is possible to ascertain the position of the reserves in the United States. The deposits in August, 1903, were £181,000,000, but three months later they had fallen to £170,000,000. The surplus reserve had decreased from £4,812,000 to £1,227,000. These figures indicate the fact that capital was being absorbed, consequently there were no expectations of withdrawals being made from that country on foreign account.

Reserves of New York Banks.

The monthly statements issued by the principal English banks give some indication of the condition of the Money Market. If the cash reserve is large it is assumed that there is little demand for capital, whilst if the contrary is true it is an indication that there is a large increase in loans. The amount of deposits held must also be taken into account. If this amount has decreased it is a clear fact that the savings of the country are declining. The reduction on loans with a corresponding increase in investments possibly means a less demand for capital by the manufacturers and the commercial classes of the community.

Monthly Returns of Banks.

Reference has been made to the fact that the only large stock of gold is held by the Bank of England, principally in consequence of its issuing notes which can be exchanged for gold on demand, and a sufficient amount must be held in order to meet sudden withdrawals of deposits which are repayable on demand. There are also international payments to be made which must, to some extent, be settled by means of specie. The fluctuations in the foreign exchanges indicate to some extent what are the movements of gold which are taking place. Thus, it was recently stated that in consequence of the recent rise in the New York Exchange some portion of the South American demand for gold would be borne by New York. Every country is anxious to have a sufficient reserve, and steps are taken to make up any deficiency by raising the rate of interest in the country where the stock of the precious metals is getting low.

Gold Reserve.

The issue of large public loans either at Paris, Berlin, or New York soon affects the cash reserve. The foreign exchanges are, therefore, most carefully watched so that when the drain of gold commences the rate of interest is raised in order to attract capital, in other words, specie, to this country.

CHAPTER VII

BANKS AND BANKING DEVELOPMENT

I. British Banking

A BANK was originally a bench set up in the market place for the exchange of money (Italian, *banco*). In a commercial sense it is an establishment where money is received on deposit, to be repaid on demand, or otherwise as may be arranged, and where loans are negotiated, bills discounted, and other financial business conducted. Bankers also act as monetary agents for customers not engaged in business, receiving payments from dividends and other sources, and taking charge of valuable property and securities.

Origin of Banks.

Banks are now generally divided into the two classes of banks of deposit and banks of issue, although both transact ordinary banking business. The former receive money at an agreed rate of interest, on condition that a certain prescribed notice shall be given previous to withdrawal. (Some banks, however, receive money on deposit which is repayable on demand.) By this plan the necessity of keeping a large sum of money in hand, earning no interest, is avoided. There is no need to prepare for a sudden emergency, and the capital can be invested in securities paying a higher rate of interest than is given by the public funds or other securities which can be immediately realised.

Bank of Deposit.

A bank of issue is one which issues its own notes payable to bearer on demand. The practical monopoly of the Bank of England has been noticed in a previous chapter, and no new bank of issue can now be formed. It is evident that in a bank of issue the profit derived from the issue of notes is equal to the interest upon the difference between the average amount of notes in circulation and the amount of specie required to be kept to meet them, less the expense of their manufacture. If a banker was obliged to keep bullion equal to the amount of his notes in circulation, he would make no profit. But for a banker with good credit, it is considered that a fourth or fifth part of this sum is usually sufficient.

Bank of Issue.

The practice of banking, though highly developed at the present time, did not make rapid strides until the last century. But it is not to be supposed that it came along with great suddenness. In various shapes and forms banking is of great antiquity. It is said that bills of exchange were known in Assyria and Babylon, and that the Jews derived much of their banking knowledge during the period of the Captivity. This is somewhat doubtful. But at any rate there was such a thing as banking known to the Greeks, the Romans, and the Jews. Each of these people had their own ideas, and were limited in their practices; but a combination of their principles would have gone far to embrace nearly the whole of the elements of modern banking. The Greek bankers received money on deposit accounts, and lent it at a higher rate of interest than they paid to their depositors. The Roman bankers received money on current accounts, and granted facilities for paying it out on the written order of their customers. But neither of them appear to have issued bank notes. At Jerusalem there sprang up a much more advanced form of banking, viz., the exchange of money. Crowds used to visit Jerusalem for religious purposes, and as it was impossible to give presents of money except in a specified currency, strangers were compelled to go to the money-changers to procure the necessary coins in place of those of their own country. There is little doubt that a large profit was made upon these transactions.

Ancient Banking.

How crude were the ideas of some of the ancients as to banking is well shown by the oft-repeated tale of the proposition of so acute a man as Xenophon. He noticed that the bankers paid interest for the money deposited with them, and charged a higher rate to the people to whom they in turn lent it. It occurred to him that it would be for the benefit of the Athenians if a certain number of citizens combined to form a large bank, from the interest on the money in which all the expenses connected with the government of the state might be met, and all the citizens live in ease and comfort!

Xenophon and Interest.

In the dark and the middle ages the Jews appear to have performed all the functions of bankers. The history of the subject is extremely vague and indefinite. It is said that they established a bank in Lombardy in 808 A.D. This may or may not be true, but that a bank was established in

Middle Ages.

Lombardy at an early date is undoubted, since Lombardy has always been looked upon as the home of banking, and Lombard Street takes its name from settlers from the north of Italy who came to London some seven or eight centuries ago. The hostility felt towards the Jews is well known, and they were expelled from France by King Philip Augustus in 1182, and from England by Edward I. in 1290.

Bank of Venice.

The so-called first bank, however, was the Bank of Venice, established in 1157. In the previous year the Doge of Venice, being in want of money, levied a forced loan on the wealthier citizens, promising interest at the rate of 4 per cent. to the creditors, and guaranteeing punctual payment of the same. The subscribers were authorised to open an office for the purpose of receiving deposits or of issuing orders, payable in ducats at a fixed standard, and funds could also be transferred by signed documents. In reality the Government of Venice created perpetual annuities, and the so-called Bank of Venice was simply a transfer office of a national debt. The real banking part of the work of the establishment did not commence for more than two centuries after its establishment, and it was only then that the Bank of Venice was really a bank in the modern sense. It continued to flourish until the French invasion in 1797.

Other Italian Banks.

Although Lombardy and Venice are so closely connected with early banking, it has been asserted that modern banking owes most of all to the money-lenders of Florence, who were well known and had connections all over Europe in the fourteenth century. England and France made certain of the private bankers of Florence their own bankers, and the former often borrowed large sums for various purposes. It was the failure of Edward III. to repay a loan of 1,500,000 gold florins in 1339 that caused the famous houses of Peruzzi and Bardi to suspend payment and spread disaster broadcast. This event led to the first monetary crisis on record. Another celebrated bank was the Bank of Genoa. It was established in 1345 for the purpose of financing and managing the public debt of Genoa. It has been described as a " conservator of peace, being at once a commercial bank, a state depository for the revenues, a contractor for the taxes, and a political custodian." This bank flourished until 1800, and its extended existence forms a world's record. There were also banks in Sicily at quite an early date. But they were not established on any firm basis. It appears that any person was entitled to open a bank if he was possessed of a small capital, and could find a surety to guarantee the same amount. It is interesting to note that it has been sometimes asserted that book-keeping by double entry originated in Sicily. It seems more probable, however, that it originated with the Venetians in the fifteenth century, the first treatise on the subject being ascribed to Lucas Pacioli, usually called Lucas de Burgo, a monk of the Minorite order.

China and Japan.

It would be strange if there were not stories afloat as to the banks of China and Japan, banks existing and flourishing at a period long prior to that when banks were in existence in Europe. It has been stated that bank notes were in use amongst the Chinese in the second century before the Christian era, being made of pieces of skin upon which the value was stamped by an official seal. But all this is very doubtful. And although Japan has now well developed her banking institutions, their early history is wrapped up in mystery.

Bank of Amsterdam.

One of the most celebrated banks, however, but belonging to what may be called modern times, was the Bank of Amsterdam, established in 1609. It was the first to perform all the principal functions of a modern bank. At the time of its foundation Amsterdam was the central exchange of the world, and the Dutch were very proud of their banks, rightly considering them to be largely responsible for their own prosperity. They watched England with a jealous eye, as English commerce was on the upward grade; but they conceived that until banking took root in England they had not much to fear from any competition.

Banking in England.

The history of banking in England does not really begin until the foundation of the Bank of England. The functions of banking, so far as they extended, had been carried out by the goldsmiths; and some of the oldest private banks are descendants of celebrated goldsmith firms. The goldsmiths had strong rooms to preserve their own property, and when law and order were not so well established as at present it was considered an excellent plan for private individuals to utilise these strong rooms, the goldsmiths undertaking to restore goods and money entrusted to them when called upon to do so. Unfortunately in the seventeenth century the public credit was not good, and two events did not tend to increase it. The first was the act of Charles I., who, at the time of the Civil War (1642-45), seized the money and plate deposited with the goldsmiths. The second was the closing of the Exchequer by Charles II. in 1670. But after the Revolution in 1688, and the introduction of the system of parliamentary responsibility and control over the public finances, it was possible for men to rely upon the credit of the Government, and for a way to be paved for the establishment of our great Bank.

Foundation of the Bank.

The credit of devising and founding the Bank of England in 1694 is due to William Paterson, a Scotchman. It was constituted as a joint stock company with a capital of £1,200,000, that sum being lent to the Government of the day. In return interest was made payable at the rate of 8 per cent., and an allowance of £4,000 a year granted for management, so that the whole payment was £100,000 a year. According to its charter, the management of the Bank of England is committed to a governor, a deputy governor, and twenty-four directors, elected by the stockholders. The corporation were not to trade in goods, but they were allowed to make advances upon, and to deal in, bills of exchange, and to issue " bills payable in coin on demand," and transferable " to bearer on demand." The privilege of issuing notes was confined to the amount of the loan made to the Government. At first the charter of the Bank was for eleven years only; but in consequence of the great services it has rendered to the Government at various times, its charter has been renewed again and again, the last time being under the Bank Charter Act, 1844. The original capital of £1,200,000 was gradually augmented until, in the year 1816, it reached the sum of £14,553,000, upon which the stockholders draw dividends, and at this sum it still remains.

Government Debt to Bank.

In addition to the original loan of £1,200,000, the Bank has lent other large sums to the Government at different times, and has always made a point of obtaining some privileges in return. It has just been stated that the original charter was granted for eleven years only, but the authorities have taken the greatest care to have its renewal provided for on each occasion well in advance. The Bank has, in fact, traded somewhat on the needs of the Government, needs which could not be supplied in any other direction. In 1708, for example, after the troubles over the establishment of a land bank, in return for a gift of £400,000 and a loan of £2,175,027 17s., the Bank was conceded the sole privilege of joint stock banking, and it was not until 1826 that other joint stock banks were allowed to be formed. At the same time the charter was extended, and the rival Mine Adventurers were abolished. In 1713, the date of the signing of the Treaty of Utrecht and the close of the War of the Spanish Succession, the Government secured a further loan of £2,000,000, and the Bank was granted an extension until all the public debts due to it were satisfied. In 1742, another loan of £1,600,000 was granted, and an Act was passed which purported to give the Bank of England a complete monopoly of banking. This Act still remains on the Statute Book, but its provisions have never been judicially construed. In 1764 the Government received a gift of £110,000 and a loan of £1,000,000. In 1800 the charter of the Bank was extended until 1833 on a loan of £3,000,000 being negotiated, the Bank not receiving any interest upon the same for a period of six years. And when the further extension of 1833 was granted, the last prior to the passing of the Bank Charter Act of 1844, the Bank gave up £120,000 a year of the money paid by the Government for general management, etc.

Country Branches.

The year 1826, in which it first became possible for joint stock banks to be established in this country, is also noted in the history of the Bank as that in which it obtained the monopoly of issuing notes in London and sixty-five miles round, and opened branches in Gloucester, Hull. Manchester, and Swansea. Other branch establishments have since been opened in various towns. The business carried on at the branches is similar to that at an ordinary branch of a bank, but bank notes are able to be issued from various of these branches.

Bank Act of 1844.

The most important incident in the career of the Bank was the Bank Charter Act of 1844, which had the effect of securing the convertibility of bank notes. By means of the Act an effort was made to suppress the local issues, and this has, through a variety of circumstances, been almost entirely accomplished. The Act, however, has not prevented violent fluctuations in the rate of interest, which it was thought its passing would prevent.

Business of the Bank.

The profits of the Bank arise out of the purchase and sale of bullion, discounting bills, interest on loans, allowances for managing the public debt, and the profit on the note issue. The Bank has, besides, at different times paid other dividends, under the name of bonuses. A bonus is a sum of money derived from the division of a fund which has been allowed to accumulate or to remain ready for use in case of emergency. The emergency having passed, the fund has been divided, and such bonuses of the Bank of England have varied from five to ten per cent. The Bank differs from any other bank in this country, inasmuch as it is the banking house of the Government. All the money drawn in the form of taxes or otherwise for the public service is consigned to the bank, while all drafts for the public service are likewise made on it. Speaking of the Bank, Adam Smith says: "She acts not only as an ordinary bank, but as a great engine of State. She receives and pays the greater part of the annuities which are due to the creditors of the public; she circulates exchequer bills, and she advances to the Government the annual amount of the land and malt taxes, which are frequently not paid till some years thereafter."

Privilege of Note Issue.

There are three distinct operations of banking carried on by the Bank of England. The first is the issue of notes, to which reference has been made in a former chapter. But it is necessary to refer to the subject again, since the expansion or the contraction of the issue has an important effect upon the money market. In consideration of the privilege of issuing notes the Bank of England pays to the Government an annual sum of about £183,000, being a part of the profit derived from interest-bearing securities. The balance of profit is a return for undertaking the expense of manufacturing, issuing, and exchanging notes both in London and at the country branches of the Bank.

Selling Gold to the Bank.

It must also be remembered that in further consideration of the privilege accorded to it the Bank must purchase uncoined gold in the shape of bars or bullion, the fineness being 22 out of 24, at the rate of £3 17s. 9d. per ounce, and in exchange for such gold bank notes are issued. The reason of the price paid, and of the difference between the Bank price and that paid at the Mint has been already explained. When notes are given in exchange for bullion, sovereigns can at once be obtained from the Issue Department.

Issuing Notes. Great care is taken in the printing and numbering of bank notes, and a separate ledger account is opened for each note created. No notes are ever re-issued. After payment in has been made they are cancelled, kept in safe custody for five years, and then destroyed. There are two principal ways in which notes are issued to the public. In the first place any person can, on demand, receive notes in exchange for sovereigns, and then, again, any customer of the Bank can receive them in exchange for a cheque drawn upon that institution. This is the usual method of London banks; when the reserve of notes is getting low a cheque is drawn for the amount required. Every London bank keeps an account at the Bank of England for this purpose, as well as for making payments of such things as Customs Duties for their customers. It is also necessary for a balance to be kept to meet payments made at the Clearing House. A greater part also of the cash reserve of the London banks is kept at the Bank of England for the sake of convenience. When notes are paid the credit issued against the same are cancelled day by day, the amount paid is deducted from the circulation account, so that the balance represents the amount of notes in circulation.

Management of the National Debt. The second banking operation of the Bank of England is the management of the National Debt. This business is naturally of considerable magnitude, owing to the enormous amount owing by the Government to those who have money invested in the Funds. The stockholders are paid their dividends every quarter, and the work of preparing dividend warrants is very great. As the work is similar to that done by other banking institutions which have charge of Colonial, Government, and Corporation stock, it is desirable to consider the system of management.

Method of Keeping Inscribed Stock. When stock is purchased on the Stock Exchange, the name of the buyer is inscribed in the books of the Bank of England. This is done in the following manner by a stockbroker who makes out a ticket and a receipt to the following form:

This Ticket is put forward by William Robinson & Co
Stockbrokers

CONSOLS. N°

Bank of England, the first day of July 1904

From
Edward Jones
of Ilfracombe
Gentleman

£ 1000 £2 : 10s. per Cent. CONSOLIDATED STOCK.

To
William Brown
of Cardiff
Gentleman

(3027)

Examined by — Dr. fol. — Cr. fol. — Transfer Book.

Posted by — Posted by

£2 : 10s. per Cent. CONSOLIDATED STOCK.

Transfer Days: Monday, Tuesday, Wednesday, Thursday, Friday. *Holidays excepted.*

RECEIVED this first Day of July 1904 of
William Brown

hereinafter called the said Transferee
the Sum of Eight hundred and Eighty pounds
being the Consideration for
One thousand

Interest or Share in the Capital of the TWO POUNDS TEN SHILLINGS PER CENTUM CONSOLIDATED STOCK, forming part of The National Debt, transferable at the BANK OF ENGLAND, and all the property and interest in and right to the same, and the Dividends thereon, by this day transferred to the said Transferee

Witness my Hand
Edward Jones

Witness
W Searle

(3026)

☞ The Proprietors, to protect themselves from FRAUD, are recommended to ACCEPT by themselves or their Attorneys all TRANSFERS made to them

£	s.	d.
880	—	

Should it be desired that the Dividends be paid in some way other than by post to the FIRST, OR SOLE, STOCKHOLDER—which is done without application—the necessary instructions must be lodged AT ONCE at the Bank.

Fresh instructions are not required upon an alteration in the amount of an existing account.

From this book the particulars are posted in a ledger which is similar to an ordinary one giving particulars as follows:

STOCK LEDGER.

Date.		Transfer Number.	From whom transferred.	Dr.	Cr.	Balance.	Record of Powers of Attorney.

In order to prepare the dividends it is usual to place on cards the names and amounts of stock held by each stockholder, calculating on the same the amount of interest, the tax, and the dividend. The particulars are copied into a dividend register as follows:

DIVIDEND REGISTER

Number.	Name.	Amount of Stock.			Dividend.			Income-tax.			Amount.			By whom received.	Date of Payment.

The dividend warrants are then prepared from this book. The stockholders can apply personally for their dividends, or the same can be transmitted by post or paid through any banker. This is an important banking operation carried out not only by the Bank of England, but also by other institutions which undertake the management of various Corporation stocks on the same principle as that already described. There is, however, another method of registration which is known as the deed system.

Stocks are transferred by means of a transfer in the following form :

Stock orwarded to the Company's Office by

I, *Ernest Brown*

of Liverpool, Merchant

in consideration of the sum of *Four hundred pounds*

paid by *William Tompkins*

of Manchester, Esquire

hereinafter called the Transferee,

Do hereby bargain, sell, assign, and transfer to the said Transferee *Four hundred and twenty Pounds Redeemable Stock*

of and in the undertaking called the *West Ham Corporation*

To hold unto the said Transferee, *his* Executors, Administrators, and Assigns, subject to the several conditions on which *I* held the same immediately before the execution hereof; and *I* the said Transferee, do hereby agree to accept and take the said *Stock* subject to the conditions aforesaid.

As witness our Hands and Seals, this

Coupon for £

day of in the Year of our Lord One thousand nine hundred and

Signed, sealed, and delivered by the above-named *Ernest Brown* in the presence of

Witness's
- Signature,
- Address,
- Occupation,

Seal.

Signed, sealed, and delivered by the above-named *William Tompkins* in the presence of

Witness's
- Signature,
- Address,
- Occupation,

Seal.

The particulars are copied into a transfer register as follows :

COPY OF TRANSFER REGISTER.

Transfer Registered.			Date of Transfer.		From whom Transferred		
Number.	Date.				Name.	Address.	Description.

COPY OF TRANSFER REGISTER—*continued.*

Dr. Folio.	To whom transferred.			Cr. Folio.	Amount.	Certificate sent.	Date.	
	Name.	Address.	Description.					

The various entries are then copied into a ledger similar to that already described ; a stock certificate is issued to each holder stating the amount of stock with full particulars.

Difference in the Two Systems.

No transfer of stock is allowed without the production of this certificate, whereas by the inscribed system the receipt showing the transaction need not be produced when the stock is sold. The Bank of England adopts both methods, although the former is the principal one.

In addition to the management of the Government Debt, the Bank has charge of the Indian Government stocks and also of various English Corporation stocks. A fixed annual sum is paid for the management, and when any fresh issue is made to the public a certain commission is paid for the work involved in connection with the same.

The third operation of the Bank of England is that of the ordinary business of banking.

The Bank Charter Act, of 1844 provided, amongst other things, that the Bank of England should issue a particular Return every week. It is issued every Thursday afternoon, and published in the daily papers every Friday morning. In the Return are shown the amount of notes in circulation, the stock and bullion in reserve, and such other matters as enable city men to judge of the Money Market and its probable tendency. It has, in fact, been called the barometer of the Money Market. The following is a copy of the Report for the week ending the 23rd June, 1909:

Bank Return.

ISSUE DEPARTMENT.

Notes issued	£57,706,245	Government Debt	£11,015,100
		Other securities ..	7,434,900
		Gold coin and bullion	39,256,245
			£57,706,245

BANKING DEPARTMENT.

Proprietors' capital	14,553,000	Government Securities	£15,368,812
Rest	3,107,086	Other securities ..	30,707,163
Public deposits	13,409,696	Notes	28,328,680
Other ,, ...	44,890,022	Gold and silver coin	1,602,809
Seven day and other other bills	47,660		
	£76,007,464		£76,007,464

The Issue Department deals exclusively with the bank notes issued. In a former chapter it was pointed out that gold coin and bullion must represent the notes which are issued beyond the amount of the Government debt and the securities deposited. The latter vary, as the Bank has a right to increase its circulation if a country bank ceases to issue notes at all.

It is not to be supposed that the total amount of notes shown in the Return are in active circulation in the country. The number is automatically fixed by Act of Parliament, and notes must be issued in return for gold and bullion transferred into the Issue Department. But on turning to the Banking Department of the Return it will be noticed that

Notes in Circulation.

there is an item "Notes." These are the notes which are unemployed, but which are ready for use if required. If they are returned to the Issue Department the corresponding amount of gold or bullion must be withdrawn from that department, and if there is a withdrawal of gold or bullion of the Issue Department the notes of a corresponding value must be cancelled. The notes are, indeed, an addition to the currency, and are secured on the credit of the Government. An excess of the issue, except under special circumstances, would lead to a depreciation in their value.

Banking Department.

It is necessary to explain the various terms used in that portion of the Return which refers to the Banking Department. The Proprietors' Capital is the amount upon which dividends are paid. The original capital, as has been stated more than once, was £1,200,000. It now amounts to £14,553,000. This was the figure in 1833, and it has since remained unaltered. The large amount of the capital gives the Bank a predominant position as to security, and it will be observed that it is an amount far in excess of that of many joint stock banks. The "rest" is the reserve kept by the bank for the payment of dividends to the proprietors. It is always kept at a total exceeding three millions, and the excess over that sum is the amount paid half-yearly in dividends. It is therefore quite possible to forecast the coming dividend at the end of the half-year with a fair amount of certainty.

Public Deposits.

Under the head of public deposits are included the moneys paid in on account of the Exchequer, the Savings Banks, the Commissioners of the National Debt, the Paymaster General, etc. The Bank of England being the banking house of the nation, all national revenues are paid in by the various collectors as soon as they are received. The amount held in hand under this head fluctuates considerably, and this is especially noteworthy at the end of each financial year, viz., the 5th April, when the balances are somewhat large. The fluctuations in the amount held has an important effect upon the Money Market, and rates of discount are in some degree governed by the accumulation of capital on Government account.

The item "other deposits" includes all other sums paid into the

Bank by various Government offices, the deposits of various banks, and the ordinary banking accounts of private individuals. It is interesting to trace the history of the deposits of the London banks. They found it desirable to retain a certain amount of capital at the Bank of England, because that institution was to a certain extent under the control of the Government, and the premises were also particularly well secured, a military guard being stationed at night within its walls. Then, again, bank notes were legal tender, and could easily be obtained in case of necessity. Another circumstance which contributed towards the keeping of deposits was the formation of the Clearing House, and in order to pay the balances due from one bank to another it was found convenient for each institution to have a drawing account with the Bank of England, and thus by means of transfer entries, as will be explained in a later chapter, balances could be adjusted without the necessity of using any coins.

Other Deposits.

The various payments on account of custom duties are made by means of cheques upon the Bank of England. The customer of a bank obtains a cheque drawn upon the Bank of England in exchange for one of his own.

The amount held on account of the London banks is very large, and great fluctuations might have a serious effect upon the Money Market. Formerly a return was made showing the amount of the bankers' balances. Thus, in 1876, it was nearly £12,000,000, and since that date there has been a considerable increase. The Bank directors are able to ascertain the resources of the market by reference to the Government and private deposits.

The seven-day and other bills, which form the last entry on the liability side of the Return, have diminished very considerably in consequence of the greater banking facilities afforded by the establishment of branch banks throughout the kingdom. They represent the money paid into the bank for bills which have been issued, especially bank post bills. These are bills which can be obtained at the Bank of England and at any of its branches, free of charge, for any sum of money between £10 and £1,000, payable to order, upon depositing the sum for which the bills are required. Such bills are payable seven days or sixty days after sight, and are not subject to days of grace. The seven-days' interest for the use of the money

Seven-day and other Bills.

is accepted by the Bank as sufficient remuneration for their part of the transaction. These bills originated in 1738 in consequence of the frequent robberies of the mails, the object being that in case a robbery took place the owner of the bill might have time to give notice of the robbery and prevent payment being made to an unauthorised person.

The following is the form of such a bill:

"BANK OF ENGLAND. POST BILL.

No. —.

London, Sept. 1st, 1905.

At seven days' sight I promise to pay this my Sole Bill of Exchange to Samuel Johnson, or order, one hundred pounds sterling, value received of Thomas Robinson.

For the Governor and Company
of the Bank of England

£One hundred. *A —— B——*"

All the above-mentioned liabilities are secured by various assets, but it will be noticed that gold and silver coin figure at the bottom of the balance sheet instead of at the top. This is somewhat different from the balance statements of other banks, because specie is the highest form of reserve. Notes would rank next in an ordinary banking account because they could be presented at the Issue Department and gold obtained for them.

The Banks' Assets.

With the Bank of England it is different. Government securities take the first place and they are followed by other securities. The Government securities include investments in Consols and Treasury bills. There is no method of arriving at what are included under the item other securities, but they refer to all the investments of the Bank, except those in Government securities, in Indian and Colonial Government stocks and corporation loans, etc.

Securities.

The other items, notes and gold and silver coin, almost explain themselves. The notes are those issued for the Issue Department of the Bank but unemployed, and they are represented by securities or gold coin and bullion under the Act of 1844. The amount of gold and silver coin kept in the Banking Department is comparatively small, but as it has been pointed out that gold can always be obtained from the Issue Department by sending back notes for cancellation, no difficulty can arise in this respect.

The ordinary banking department is known as the Private Drawing Office, where all accounts except those of the Government are kept. No charge is made for the privilege of keeping an account, but customers are expected to keep what is known as a remunerative balance. If a great amount of work is entailed by the payment of cheques and other services rendered, the balance must be sufficient to enable the Bank to obtain a yearly income by lending what is permanently left on current account. Again, if a customer deposits a large amount of securities for safe custody, a larger balance is naturally expected than would otherwise be the case. The most important accounts kept in the Private Drawing Office are those of the London banks, a separate department being set aside especially for their use.

Private Drawing Office.

Although it is the custom of French banking institutions to make a charge for the custody of securities, the English banks have always undertaken the business free of commission.

The Public Drawing Office is a subdivision of the banking department, simply for the purpose of convenience. When the enormous expenditure and receipts of the various departments of the State are considered, it is easy to realise how great is the amount of work entailed in the management of such accounts, but although they are large, they are kept on the same principle as private accounts.

The Discount Office is probably the most important office at the Bank of England, because the Money Market is considerably affected by the charge made by that institution for discounting bills. The manner in which such charges are made and the effect produced by them have been considered in the previous chapter. The difference between the discounting of bills by the Bank of England and by other similar institutions is that any one respectably introduced can have a discount account, whereas other banks will only discount bills for their customers.

Discount of Bills.

No doubt the fact that the Bank held the cash reserve of the country was the reason why this system came into existence. Whenever there was a feeling of distrust in the Money Market bill brokers and others obtained accommodation at the Bank. Only short term bills, viz., those of sixty days, or from two to three months, are received. The

Method of Discounting Bills.

Bank, moreover, will not discount bills accepted by foreign banking institutions, or those bearing foreign indorsements. Bills accepted by first-class English firms are readily taken. If the number offered for discount is large, the rate of discount is at once raised so as to check the demand.

Branch Bank Department.

The Branch Banks Department is for the purpose of transacting business in connection with the various branches. Remittances are sent daily from each branch, including cheques payable in London. Bank notes issued at a branch are only payable at the place where they are issued or in London. The accounts from each branch are balanced daily, and particulars of the daily transactions are transmitted to London.

The most important work of these branches is the receipt of taxes on account of the Government, especially at seaport towns where import duties are received. The amounts so obtained are at once advised in London, so that the Exchequer is credited without any loss of time.

Methods of Management.

The general management of the bank outside that connected with the issue and the payment of bank notes is similar to that of any other banking institution. As bills of exchange form the best investment for surplus funds, the Bank of England is naturally anxious to obtain a share of that particular business. The investments are in first-class securities which are easily realisable in case of necessity. The Governor is responsible for the general supervision of the securities held, and he is assisted by the Treasury Committee.

From an examination of the Return given on a previous page, it is obvious that the Bank of England could, if necessary, pay off the whole of its share capital without calling upon the Government to repay its debt, if the present law respecting the note circulation was not altered.

Unique Position of Bank of England.

The position of the Bank of England and its working have been explained and discussed at some length, because it occupied so unique a position in the country during the whole of the eighteenth century. It secured a kind of monopoly in 1708, when an Act was passed forbidding the establishment of any other bank consisting of more than six persons with privileges similar to those enjoyed by itself. And this peculiar position was retained until 1826. There are, it is true, a number of private banks in London, the descendants of the old goldsmiths, that of Messrs. Child dating from 1600. But their attention was turned towards the deposit system of banking almost exclusively. In the country there were private banks, and these banks had a note issue of their own in their own districts. In addition to these, there were notes in circulation issued by small tradesmen, the amounts often being of a most insignificant character. But the disasters which happened in the early part of the eighteenth century called attention to the various difficulties concerned with these issues, and eventually an Act was passed, that of 1826, which placed proper restrictions upon such issues, and permitted the establishment of joint stock banks. If such banks were established, however, there was no note issue permissible within the sixty-five mile limit of London, where the Bank of England held its own, and the Bank also was a competitor in the country districts, branches being established in certain large centres.

Joint Stock Banks.

Country joint-stock banks were, therefore, the first to be established. But a clause in the Bank Charter Act, 1833, permitted their establishment in London, provided they had not a note issue. And this opportunity was eagerly seized. Every bank which originally consisted of more than six members was called a joint stock bank, and was founded on the principle of unlimited liability. The oldest of this class in London are the London and Westminster, founded in 1834, the London Joint Stock, 1836, the Union, 1839, and the London and County, also in 1839. The first named of these banks had the advantage of the services of Mr. James Gilbart, one of the greatest bankers of the last century. But owing to the restrictions of the Companies Act, 1862, which prohibited the establishment of any banking company, unless registered under the Act, or formed in pursuance of some special Act, or of letters patent, consisting of more than ten persons, and also the provisions of the Companies Act, 1879, the majority of joint stock banks have now become registered, and the principle of limited liability applies to them as to joint stock companies. It must be remembered, however, that the limitation of liability of a joint stock bank does not extend to the note issue of such a bank provided it is a bank of issue.

The general policy and line of business of a joint-stock bank is shown by reference to a prospectus issued by a London bank which was established in 1834:

General Business.

Terms—Current accounts are opened on the same principle as those observed by other London bankers; if no balance is kept a small commission is charged proportionate to the amount of the business.

Deposit Accounts.—Interest is allowed on money placed on deposit at 7 days' notice, whether by customers or the public generally, and receipts are given for the sums so deposited.

Strong rooms are provided for the security of deeds and other property lodged by the customers of the banks.

The agency of country and foreign banks, whether joint stock or private, is undertaken.

Circular notes and letters of credit are issued for all parts of the Continent and elsewhere.

Purchases and sales are effected in all the British and foreign stocks and securities. Dividends on stocks and shares, the half pay of officers, pensions, annuities, etc., are received for customers without charge.

Interest of Current Account.

Some of the banks offered a small amount of interest on the minimum balance, but this was subsequently abandoned because of the difficulty experienced in lending surplus funds. It will be noticed that if no balance is kept on current account, a small commission is charged for the advantages of having a banking account. This has been very useful to the small trader who finds it difficult to keep a permanent balance.

Deposit System.

The system of deposits was the means of increasing the business of joint stock banks, since the private bankers only accepted deposits from their own customers. In order to make a profit on such deposits it is usual to allow $1\frac{1}{2}$ per cent. interest below the official rate of the Bank of England. When, however, that rate is very low, the banks allow 1 per cent. below the official minimum. It is essential that deposits should be lent at a profit, consequently it is found how this is effected by an examination of a balance sheet.

A certain portion of the assets are invested in interest-bearing securities easily realisable. This is advantageous because they can be readily sold in order to provide for any sudden demand made on the part of the depositors. There is, however, about 50 per cent.

of the liabilities locked up in loans and advances which cannot be realised so quickly as investments. This portion includes bills discounted—and these are a favourite form of investing money—because they are payable at short dates, varying from two to six months. The remainder of the assets are not so easily recalled but the policy of a bank is always to have loans at short dates.

Advantages to Customers.

It is noticed that, in accordance with the terms of the prospectus, and in consideration of a customer keeping a balance on his current account, or paying a commission, certain privileges are granted to him. In the first place, he is able to draw cheques in order to pay his debts or to discharge his liabilities. He can also leave boxes containing valuables for safe custody. When securities are purchased the bank undertakes the charge of the same. If they are securities payable to bearer with coupons attached, they are collected at maturity. Dividends on various stocks can be received by means of the customer signing an order in favour of the bank. The customer can purchase and sell stocks and shares through the bank, and the bank undertakes to see the transactions properly executed and either to deliver or to receive the stock and shares and to make the necessary payments. A bank often undertakes to make periodical payments on behalf of customers, such as the payment of premiums on life and fire insurance policies, or the payment of club subscriptions and other similar transactions.

Modern Banking Facilities.

A customer can also lodge money to his credit at any of the branches of his bank. This is done by means of transfers at the head office. Recently there has been a great development in the transfer of capital from one bank to another, which will no doubt tend to diminish further the use of coin and bank notes. Several banks have agreed to accept credits of other banks for transmission to the head office. Thus, bank A receives a sum of £10 from a customer of bank C for his credit. The bank A sends an order for payment of £10 to its head office, and the same is delivered to bank C, which receives the amount through the Clearing House. If possible, every transaction of this kind is effected through the head office; thus, if branch A of bank X receives a credit for branch C at the head office, the practice is to debit A and credit C.

The agency of country and foreign banks is undertaken, and this forms an important part of the work of a London bank. In consideration of a commission and a certain balance on current account, a London bank undertakes all the business connected with the agency of a country bank. The work is considerable because London is the financial centre of the world. All payments on account of transactions with other banking institutions are effected by sending payment slips to the agent which are delivered to the various banks, and then payment is received through the Clearing House.

The various payments undertaken on behalf of country correspondents effect a considerable saving in the use of gold and bank notes. When the business of the Clearing House is considered in a later chapter, it will be seen that all these payments are made through that institution and that the whole work is done without the use of any money at all.

With regard to the issue of letters of credit and circular notes, these form an important medium for the payment of debts abroad.

Letters of Credit.

A letter of credit is in the following form :

" This letter of credit will be presented to you by Mr. John Evans, and we request you will hold at his disposal the sum of one hundred pounds and pay him in such sums as he requires.

Please to indorse hereon any advances made to him and to draw upon us at sight, which will be duly honoured.

We remain,

Your obedient servants,

——— Manager.

——— Secretary."

The bank forwards to their correspondent abroad a letter of advice in the following form :

" The —— Bank, Rouen.

I beg to advise having this day issued a letter of credit on you in favour of Mr. John Evans, No. 50, for one hundred pounds sterling (£100) to which I request your kind attention.

Yours truly,

———, Manager."

The foreign bank draws upon the London bank for the above sum, and is able to make a profit on the transaction by selling the draft, as there is always a demand for bills and drafts on England.

It should here be noticed that on various accounts, especially the want of certainty, a letter of credit is not a negotiable instrument, and therefore payment can only be legally demanded by the person who is named in it.

Circular notes take the place of bank notes abroad, and, as French is the language universally known and used in commercial transactions on the Continent, they are printed in French. The following is the general form of a circular note :

Circular Notes.

" —— Bank.

No.—

Lettre de Crédit Circulaire pour £10 sterling.

Londres, le 19—.——

À Messieurs les Banquiers

Designés dans nos lettres d'indication.

Messieurs,—

Cette lettre vous sera présentée par M. ———, de ———, dont vous trouverez la signature dans notre lettre d'indication susdite. Je vous prie de vouloir bien lui compter sans frais quelconques la valeur de dix livres sterling au cours de change à usance sur Londres contre sa traite ci-jointe sur cette banque.

J'ai l'honneur d'être, Messieurs,

Votre très obéissant serviteur,

————, Gérant,

————, Secrétaire."

On the other side of the note is found the following :

" —— Bank.

£10. Londres, le —— 19—.

A sept jours de vue préfixe payez à l'ordre de M. —— dix livres sterling valeur reçue.

À ———— "

A circular note is always accompanied by a letter of introduction as follows :

" Londres, le —— 19—.

Messieurs,

Le porteur de cette lettre, M. ————, pour lequel nous réclamons votre attention est muni de nos billets de change circulaires pour son voyage. Nous vous prions de lui en fournir la valeur su son double acquit au cours de change à usance sur notre place et sans déductions de frais.

Si la ville où il en touchera le montant n'a pas de change direct sur Londres, vous voudrez bien en combiner un avec la place cambiste la plus voisine.

Vous observerez que tout agio sur espèces d'or ou d'argent et tous frais extraordinaires dans le cas d'un remboursement indirect doivent être supportés par le porteur et ne peuvent être à notre charge.

Cette lettre, devant accompagner nos billets circulaires, doit rester dans les mains de son porteur jusqu'à son épuisement.

Nous avons l'honneur d'être, Messieurs,

Vos très humbles et très obéissants serviteurs.

———, Gérant.

———, Secrétaire."

In the same way as with circular letters of credit, the foreign correspondent in cashing such notes makes a profit according to the rate of the exchange upon London. When these documents are issued the customer's account is debited and the amount is transferred to the circular letter of credit and notes account. The result of this transaction is that there is a large balance upon which no interest is paid.

Among the minor profits of a bank are those obtained by the purchase and sale of securities, and the issue and the payment of telegraphic transfers. Upon these latter a percentage of one-eighth is charged for remitting amounts by cable.

Influence of Joint Stock Banks.

The development of banking during the nineteenth century is argely due to the joint stock banks. When they were allowed to establish themselves, first in the country, in 1826, and afterwards in London, in 1833, they were subjected to many restrictions, partly owing to the jealousy of the Bank of England, and partly to the opposition they had to meet from private banks. Their limitation as to the issue of bank notes has been noticed more than once, and to compensate for this limitation, and the consequent restriction of their credit dealings, they were compelled to turn to other branches of business. The development of the deposit system and of payments made by cheques is largely the outcome of their work, and they have consequently conferred an inestimable boon upon the general public.

One of the most striking matters in connection with joint stock banks has been their absorption of smaller banks and the consequent expansion of their own business. By means of absorption and amalgamation it is estimated that the number of banks has been reduced by about one-half during the last quarter of a century, and there is a likelihood that the reduction will be still greater in the immediate future. This reduction has been accompanied by the increase of branch banks in an inverse ratio, and although, therefore, banking companies have decreased in number, banking facilities have increased enormously. The possession of a large capital, owing to combination, has permitted of greater and greater developments, and many of the joint stock banks are now in a commanding position which it seemed impossible for them to attain when they were first established. The majority of the private banks must, in the natural course of things, cease to exist in course of time, as they are not likely to possess the resources of the joint stock banks which will enable them to compete with all the modern methods of banking introduced by the latter. There were several important amalgamations in 1918, and others are contemplated.

Efficiency.

There can be no doubt that this expansion has led to increased efficiency, and at the same time there is a great saving in management. Separate banks mean so many separate and distinct masses of capital. A joint stock bank with many branches can transfer its capital from place to place, and use it to the best profit wherever it sees that it is advantageous to do so. It is not, therefore, entirely dependent upon local circumstances. For example, it is possible to advance loans upon terms in one part of the country which are not obtainable in another. Capital will flow at once to those places where it can be most profitably employed, and so a bank with many branches can maintain a higher rate of profit than one which is confined to a narrow sphere. There is an advantage also in having a London connection for many purposes. And if a joint stock bank has a chief office there, much of the inconvenience and expense of agency work is saved.

Banking in Scotland has been eminently successful, in fact no other people possess so many facilities for banking as the Scotch.

Banking in Scotland.

The Bank of Scotland was established in 1695, the year after the establishment of the Bank of England, by an Englishman named Holland. Its initial capital was but £100,000. But it was after the Union in 1707 that the real banking of Scotland commenced. The Royal Bank of Scotland was founded in 1727, and other similar institutions followed in due course.

There are two features of Scotch banking which are peculiar to that country, viz., the issue of one pound notes and the cash credit system.

One Pound Notes.

The issue of the former has been very useful because a less amount of coin is required as a circulating medium, and there is a preference in Scotland for holding such notes instead of coin. If a bank has power to issue a large number of such notes, it is clear that a considerable profit can be made out of the capital which they represent. Some idea may be formed as to the popularity of the one pound notes when it is seen that their total amounts to about 66 per cent. of the total issue. The average value in circulation is about £7,500,000.

The issue of bank notes in Scotland was regulated by an Act passed in 1845, the lines of which were somewhat similar to those of the Bank Charter Act of 1844. All existing banks which issued notes at that date had reserved to them the right of issue for the future. This restriction prevented, to a certain extent, the creation of any new banks in Scotland. There was, however, no privileged bank. The amount of issue without the security of a reserve of gold was fixed at £3,087,209, and the proportionate issue of each bank was determined by a process set out in the Act. Beyond this sum a reserve of gold must be held to meet the issue. Owing to the reduction in the number of banks by reason of amalgamations and failures, the authorised issue, without a reserve of gold to meet it, has been reduced to £2,676,350. It is not to be forgotten that Bank of England notes are not a legal tender in Scotland.

With regard to the cash credit system the Royal Bank has the distinction of having originated the same, and the first account of this kind was opened in 1728, the year after the establishment of that bank. The system itself is well explained by the report of the Lords' Committee in 1826. The report states, "This system has had the best effects upon the middling and poorer classes of society in producing and encouraging habits of frugality and industry. Any person who applies to a bank for a cash credit is called upon to produce two or more competent sureties who are jointly bound, and after a full inquiry into the character of the applicant, the nature of his business, and the sufficiency of his sureties, he is allowed to open a credit and to draw upon the bank for the whole of its amount or for such part as his daily transactions may require. To the credit of this account he pays in such sums as he may not have occasion to use, and interest is charged or credited upon the daily balance as the case may be. From the facility which these cash credits give to all the small transactions of the country, and from the opportunities which they afford to persons who begin business with little or no capital but their character to employ profitably the minutest products of their industry, it cannot be doubted that the most important advantages are derived to the whole community. The advantages to the banks who give these cash credits arise from the call which they continually produce for the issue of their paper and from the opportunity which they afford for the profitable employment of part of their deposits. The banks are, indeed, so sensible, that in order to make this part of their business advantageous and secure, it is necessary that their cash credits (as they express it) be frequently operated upon, and that they refuse to continue them unless this implied condition be fulfilled."

Cash Credit System.

The cash credit system has had great advantages since it has allowed the Scotch banks to make full employment of their great resources. Branch establishments have been set up in all directions, and the deposit system has been in existence from an early date. Interest on such deposits has always been allowed, and to this fact may be attributed the comparatively small number of savings banks in the country.

Another important feature is the great number of shareholders in Scotch banks, which shows how closely the prosperity of the country is bound up with its banking institutions.

The following are the principal banks which are now in existence in Scotland, together with their paid-up capital:—

	Capital.
Bank of Scotland.	£1,325,000
British Linen Co.	1,250,000
Clydesdale	1,000,000
Commercial Bank..	1,000,000
National Bank of Scotland	1,000,000
North of Scotland and Town and County Bank ..	652,000
Royal Bank of Scotland..	2,000,000
Union Bank of Scotland..	1,000,000

The total deposits are about £180,000,000.

The most important feature in the early history of Irish banking was the injurious effect caused by an excess in the circulation ot paper money. The foundation of the Bank of Ireland in 1783, with privileges similar to those of the Bank of England, was, however, the commencement of a new era in the banking history of that country. By the Act which established the Bank of Ireland no other banks could be formed consisting of more than six partners. This restriction was not considered to be of unqualified benefit, for it was stated by Sir Henry Parnell that "if the trade of banking had been left as free in Ireland as in Scotland, the want of paper money that would have arisen with the progress of trade would in all probability have been supplied by joint stock companies, supported with large capital and governed by wise and effectual rules." The restriction as to the formation of new banks was removed by an Act passed in 1821, but it was really prohibitive since it enacted that all the partners should be residents in Ireland. In 1825 another Act was passed and the formation of joint stock banks was permitted provided they were not set up within fifty miles of Dublin.

Irish Banking.

The privilege of joint stock banking was accorded to the Bank of Ireland on the understanding that its capital should be lent to the Government. The amount of the capital was £600,000 in Irish money, but subsequent loans to the Government raised the total to £2,850,000 of Irish currency, which was equal to £2,630,769 4s. 8d. in English money. As already stated, the monopoly of the Bank was not taken away until 1825, and the final restrictions were not removed until twenty years later, but after 1845 no new banks were permitted to issue notes.

Bank of Ireland.

The Bank of Ireland is a semi-government institution, though its bank notes are not a legal tender (see p. 46), and it keeps the Government Account. The amount of its capital lent to the Government has never been repaid, but the rate of interest which was originally 4 per cent., has been reduced to $2\frac{3}{4}$.

21 and 22 George III. c. 16.

The Act of 1782, which established the Bank, enacted that no person was to subscribe more than £10,000. If debts were contracted to an amount greater than the capital, the proprietors were to become personally liable to the creditors in proportion to their contributions. The Bank was not permitted to borrow or to lend money at a rate of interest exceeding 5 per cent., nor to engage in any other business than that of banking. The stock was to be transferable and to be deemed personal estate, so that the executors or administrators of a deceased shareholder became legally entitled to the stock which he had held.

Irish Currency.

In 1825 an Act was passed assimilating the currency of Ireland to that of England. Previously to the 5th January, 1826, when the Act came into force, the English shilling was valued at 13d. in Ireland, and the English sovereign at £1 1s. 8d. All receipts, payments, contracts, and dealings subsequent to the passing of the Act were to be made in the currency of Great Britain. "Contracts, debts, etc., made or contracted previous to the commencement of this Act shall be carried into effect and satisfied by payment in British currency $\frac{12}{13}$ of the amount according to Irish currency.

"Bankers' notes shall be made payable in British currency.

"No notes payable in Irish currency shall be re-issued after the commencement of this Act under a penalty of £50 for each offence.

"Bankers may deliver into the stamp office re-issuable notes payable in Irish currency and receive in lieu thereof new stamps to the whole amount of the stamps delivered up if dated within one year previous or three-fourths if within two years, and one-half if within three years."

Since the passing of the Act of 1845, to which reference has been made above, the note issue of the Bank of Ireland has been limited in the same way as that of the Bank of England, and a return of the note circulation is published weekly in the same manner as the Bank Return in England.

With the exception of the prohibitive clauses which prevented the establishment of other banks, the Bank of Ireland has been of great financial service to the country. It was mainly instrumental in placing the currency on a sound basis, and it has largely assisted the Government when loans and other financial operations have had to be effected. Its business has been conducted on conservative principles, and it has taken no part in modern banking developments except in so far as it has been compelled to do so by force of circumstances.

Previous to 1825, when the Provincial Bank of Ireland came into existence under the provisions of 6 George IV., c. 42, the Bank of Ireland had no branches outside Dublin, and in Dublin itself there were but four private banks. In other parts of Ireland there were banks at four places only, viz., Belfast, Cork, Wexford, and Mallow. The year 1825, therefore, may be considered as the beginning of a new chapter in the history of Irish banking, because after that date other powerful joint stock banks came into existence.

Between 1825 and 1834 branch banking offices were gradually established by the Provincial Bank, the Bank of Ireland, the Northern, and the Belfast banks to the number of about fifty, and since then the joint stock banks having resident managers or agents in different parts of the country have increased greatly and are still being added to. In addition to this there has lately been a process of amalgamation and expansion on the part of joint stock banks in Ireland similar to that of in England.

Political considerations have had much to do with the slow development of banking in Ireland, and the state of agriculture has not been such as to require a large increase of banking facilities. However, in the north of Ireland, the centre of the linen manufactures and of shipbuilding, there are three important banking institutions, viz., the Northern Banking Company, the Belfast Banking Company, and the Ulster Banking Company.

The business of banking in Ireland is practically carried on by the following nine banks, viz.:

	Paid up Capital.
Bank of Ireland	£2,769,230
Northern Banking Company	500,000
Hibernian Bank	500,000
Provincial Bank of Ireland	540,000
Belfast Banking Company	500,000
National Bank	1,500,000
Ulster Banking Company	500,000
Royal Bank of Ireland	300,000
Munster and Leinster Bank	200,000

The total amount of deposits in these banks is over £100,000,000, and more than six hundred branches have been opened for the purpose of providing banking facilities for the community. The business of these banks is similar to that of other institutions in England and Scotland, but the banks in the north of Ireland have greater demands for capital, consequently their advances in proportion to deposits are much larger. It is only natural that the loans required in manufacturing centres are larger than those called for in agricultural districts, the needs of the latter being considerably less than those of the former.

Distinctive Feature of Irish Banking.

There is, however, one distinctive feature of Irish banking, and that is the system of discounting bills for small amounts, similar to that carried on by the Bank of France. Although advances are made in bills and promissory notes from £1 to £20, the loss on such transactions is practically unknown. It has been stated that in 1896 one of the banks discounted 4,000 bills of £2 and upwards, and that it had not had to sue in five cases in as many years. Another bank discounted between 4,000 and 5,000 bills a year, the loss sustained being only £30 in ten years. A third bank discounted from 5,000 to 6,000 bills a year, but had never sued for 20 years, or found it necessary to seize a man's goods. In the fourth case the bank discounted 2,000 bills a year, but had never taken bankruptcy proceedings, and had had occasion to sue four times only in twelve months. No less than 43 branches and 11 agencies are opened one or two days a week for the purpose of transacting business of this character

The above mentioned facts show that the Irish people are trustworthy, and that the business has been profitable to the various banking institutions.

II—FOREIGN BANKING

The first bank of issue established in France was in 1716, the originator being a Scotchman named John Law. Owing to its ill success after a few years' trading, and also to the heavy losses involved by those who had done business with it, banking received little encouragement in France until the end of the eighteenth century. The Bank of France was then founded in the year 1800, chiefly through the influence of Napoleon, who was then First Consul. It has now risen to such a position that it is second only to the Bank of England in that it is a great central institution under the complete control of the Government. The Governor of the Bank is an official who is appointed for life, and he is generally a man who has held a high position in the Cabinet. There are also two deputy governors who are appointed in like manner. The general management of the Bank is in the hands of a general council, which consists of fifteen regents and three censors, who are elected by the general assembly of two hundred of the largest shareholders. With regard to the regents, there must be five appointed from amongst manufacturers, traders, and merchants, who are also shareholders of the Bank. Three appointments are given to Receivers General of taxes, who possibly from their position are able to assist the council by their knowledge of the financial condition of the manufacturing class. The censors appear to be somewhat of the nature of auditors and superintend the banking operations. Their work is similar to that of the inspectors of English banks. The censors appoint the discount committee, which consists of twelve shareholders carrying on business in Paris. The principal duty of the Governor is to see that the Bank performs its duty towards the State, and that it assists the various industries of the country.

Bank of France.

The position of the Government Bank is one of enormous importance, and banking operations are mainly carried out under its control. This is in consequence of its large issue of bank notes, the present amount being about £172,000,000. It is the only institution in France which is allowed

Note Issue.

the right of issue, whereas in Great Britain, as it has been shown, there are other banks besides the Bank of England which are permitted to issue bank notes under certain conditions. The gold reserve of France also is under the control of the Bank of France, and prompt steps are taken to retain a certain amount of specie in the country whenever there is likely to be a drain made upon it. The Bank can prevent an export of bullion since it can redeem notes and pay debts in silver.

An important feature in the business of the Bank is the large number of bills discounted, and this is carried out to such an extent that bills of amounts as small as 4s. 2d. are taken, and loans of £10 are allowed. The number of small trade bills circulating in Paris in the year 1876 amounted to £3,204,159.

Discount of Bills.

In recent years there has been a great development of banking facilities by the opening of branches, although some of these have been carried on at a loss. The deposits are not large, but as the Bank is allowed to issue £232,000,000 of notes, traders experience no difficulty in obtaining accommodation.

As the French prefer to make use of notes rather than of coin, specie to a large amount is accumulated in the vaults of the Bank of France against the note issue. The present amount is—

Gold	£93,372,000.
Silver	£44,000,000.

This large reserve is really necessary when the enormous note circulation is considered, but at the same time the withdrawal of gold from France does not affect the rate of discount in the same manner as it does in the case at the Bank of England.

The Bank of France makes a charge for the safe custody of securities, and in this respect its practice is different from that of English banks. The following charges are made in France, the minimum being 25 centimes.

Charge for Custody.

When the value does not exceed 20 fcs.	·05c.	per fc.
,, ,, exceeds 20 fcs. and does not exceed 500 fcs.	·05c.	,,
,, ,, 500 — 1,000 fcs.	·01c.	,,
,, ,, 1,000 — 2,000 fcs.	·015c.	,,

When securities have been deposited the charges for their safe custody are payable in advance in January and July.

Besides the Bank of France there are four large joint stock banks in existence, viz. :—

	Capital and Reserve.	Other Liabilities, Deposits, etc.
Comptoir National d'Escompte de Paris	£6,000,000	£21,000,000
Crédit Lyonnais	£10,400,000	£46,000,000
Société Générale pour favoriser le Commerce	£2,950,000	£22,000,000
Société Générale de Crédit Industriel et Commercial	£880,000	£4,690,000

In the country there are many banks with branches which carry on a business similar to that of English country banks. There can be no doubt that these banks have been and are eminently useful for the purpose of developing the agricultural and manufacturing business of the country. The English system of drawing cheques against the balance on current account is not utilised to any great extent. The large circulation of notes no doubt takes the place of cheques to a considerable extent.

The first bank established in Germany was at Hamburg in 1619, and it was modelled upon the celebrated Bank of Amsterdam. But the most important of all the banks is the Reichsbank, or Imperial Bank, which is more like the Bank of France than the Bank of England. It is entirely under the control of the Government, since the directors are appointed by the Chancellor of the Empire. By an Act passed in 1875, it was allowed to issue notes to the value of £12,500,000 without a specie reserve, and this issue has been increased by subsequent Acts to £23,641,450. Against this issue, treasury notes, which the Imperial Government is bound to pay in specie, notes of other banking institutions, and discounted bills maturing within three months after being received (with not less than two good indorsements), are allowed to be held against the above mentioned amount. One-third of the notes in circulation must be covered by the current coin of the realm, treasury notes, or gold in bullion or foreign coin. The Reichsbank is bound to redeem its notes in current German money, which may be either in gold coin or silver thalers, or gold coin at the rate of 1,392 marks to a pound fine of gold.

German Banking.

The note circulation on the 15th October, 1904, was £69,700,000, and the gold held in reserve, £41,980,000. Loans and advances amounted to £3,800,000, and bills discounted were £44,300,000.

The bank is allowed to issue notes above the amount authorised by law in consideration of a payment of 5 per cent. to the State of the excess amount issued. There is some doubt as to whether this privilege is advantageous, since it may encourage speculation either on the part of the bank or its customers. This right to issue beyond the authorised limit is known as the "elastic clause" of the German Bank Act. The Reichsbank was allowed to increase its capital, in 1899, from £6,000,000 to £9,000,000 and £1,500,000 has been added to the original amount. The reserve fund was to be increased gradually from £1,500,000 to £3,000,000.

As regards the management of the great institution, the Council of Administration is appointed by the Government, the President being the Chancellor of the Empire for the time being, and there are four paid colleagues. One of them is named by the Emperor, and the other three are appointed by the Federal Council. This Council meets once every quarter, and receives a report as to the general condition of the bank. There is also a general statement of accounts brought before it. The Imperial Chancellor acts alone in some respects, since he directs the whole administration under the rules of the Bank Act, publishes the directions for the Bank Directory, and also the rules and instructions for the officials of the Bank.

The Imperial Bank Directory is the official authority under which the Bank is carried on. It consists of a President and a certain number of members, and its decisions are arrived at by a majority of the members present. It is subject to the directions of the Chancellor of the Empire on all questions of administration. The President and the members of the Bank Directory are appointed for life by the Emperor according to the recommendations of the Federal Council.

The shareholders are represented by a central committee of fifteen members, chosen from among their own body. To this committee the weekly reports as to the discount of bills and loans, note circulation, cash in hand, the deposit, purchase, and sale of gold, bills, and securities, and the distribution of funds to the branch offices are regularly submitted. The committee may express its opinions on certain details connected with the administration of the bank.

Some idea of this important institution can be formed when a comparison is made between it and the Bank of England.

	Bank of England.	Bank of Germany.
Note issue	£53,342,000	£69,796,000
Cash	34,892,000	41,983,000
Deposits	48,000,000	24,988,000

Although the note issue of the Bank of Germany is considerably larger, the deposits are only fifty per cent. of those of the Bank of England. Current accounts are, however, increasing in Germany. A charge is made for securities deposited for safe custody.

The other note-issuing banks in Germany are obliged to assist the Reichsbank in protecting the gold reserve by means of raising the rate of discount. The official rate of the Reichsbank is to be binding on the other banks after the rate has reached or exceeds 4 per cent. At other times the banks are not allowed to discount bills at a less rate than over one-fourth per cent. below the official rate of the Reichsbank, but if that institution discounts at a lower rate than the official minimum, not more than one-eighth per cent. below that rate. If this is done the Reichsbank is bound to publish the fact in the *Gazette*. This provision applies to the following institutions :—

	Capital.
Bank of Brunswick	£525,000
Bank of Frankfort	900,000
Bank of Saxony	1,500,000
Bank of Bavaria	1,875,000
Bank of Wurtemberg	900,000
Bank of Baden	450,000
Bank of South Germany	500,000

This last named bank has recently been taken over by the Bank für Handel und Industrie Darmstadt, and all its notes must be presented for payment before the end of 1905.

The Bank of Frankfort has abandoned its right of issuing notes. The remaining six banks have at present an issue of 541,600,000 marks.

In Germany there are about 140 banks carrying on business with a total capital of £15,000,000, including the Reichsbank. Although he capital is large, yet the deposits of these institutions are really mall in comparison with those of English banks.

Throughout the German Empire the system of banking differs considerably from the English system, since there is a large note issue for the purpose of banking facilities. Loans granted are not easily realisable, because the capital is mostly advanced to large industrial undertakings, not only in Germany, but in other parts of the world. England has known the difficulty and the danger arising from banks investing too much capital in industrial enterprises. The great aim of banking is to advance loans for short periods only, and upon securities which are easily realisable. There is, of course, always a temptation to secure a higher rate of interest than that which is received on first class securities, or on bills discounted for a short period.

An excellent feature in German banking must not be passed over without notice, viz., the method by which money can be remitted from one branch of the Reichsbank to another. Thus money can be sent from any of the 400 branches without cost either to the sender or to the receiver. Any customer who has an account with the bank can have money remitted to him, and in this manner a debtor can remit the amount owing to the account of his creditor without any charge or risk in transmission. This has been a very useful method of settling debts, and it has increased the business of the Bank to a considerable extent.

Changes are taking place in Germany with regard to banking as elsewhere. Bills for small amounts are becoming more common, and current accounts similar to those of English banks seem to be increasing. There is also a series of amalgamations going on which will eventually place the organisation of capital under the control of larger banking institutions than in the past.

Another important banking institution in Germany to which reference must be made is the Sechandlung, or Prussian State Bank. This institution has large deposits, and, when it lends freely, tends to relieve the pressure of the Money Market. For example, the German official rate of discount was 5 per cent. in October, 1904, but the Sechandlung was lending to the end of the month at $3\frac{7}{8}$ per cent., and to December 20th at 4 per cent. This institution undertakes large financial operations, either on account of the German Colonies, or of other large industrial undertakings. The issue of the Baghdad Railway Obligations of the Turkish Empire, amounting to £2,000,000, which is being managed by the

Sechandlung, is an illustration of the importance of this institution in the Money Market. (See Note, p. 50.)

United States Banking.

The great feature in the United States banking is the National Bank system, which is strictly regulated by the Government. Application to form a bank has to be made to the Comptroller of the Currency at Washington, and the necessary form must be signed by five persons who intend to become shareholders. This form must bear the indorsement of a United States Senator, Judge, or other prominent official. The capital required is as follows:—

		Minimum capital.
In towns with a population of not more than	3,000	$25,000
,, ,, ,, ,, ,,	6,000	50,000
,, ,, ,, ,, ,,	50,000	100,000
,, ,, ,, over	50,000	200,000

Fifty per cent. of the capital must be paid in cash before the bank can commence business, and the remainder must be paid within a specified time. The next step is to deposit bonds with the Treasurer of the United States bonds, equal to at least one-fourth of the capital of the bank. By the Act of 1900 an issue of two per cent. Consols was made for the purpose of assisting the formation of such banks, and the Act contained features which made the issue of bank notes more profitable. Every National bank may issue notes to the amount of its paid-up capital, as already stated.

In 1900 there were 3,604 National banks, the total assets being $4,674,910,713. Of this amount $2,481,000,000 was represented by loans and discounts.

Specie	$339,000,000
U.S. bonds for circulation	236,000,000
Stocks and securities	330,000
Legal tender notes	122,000

Liabilities.

Capital paid up	$613,000,000
Circulating notes	204,000,000
Individual deposits	2,481,000,000
U.S. deposits	103,000,000
Surplus and undivided deposits	363,000,000

In 1903 there were 5,042 National Banks with a capital of $753,000,000 and total liabilities of $6,310,000,000.

The National banks are required to retain a certain portion of their funds in order to form a reserve fund, viz., from 15 to 25 per cent., which is made up of cash in hand, the 5 per cent. fund deposited with the Treasury of the United States to redeem the circulating notes, and, with certain limitations and exceptions, bank credits with regularly designated reserve agents.

The cash in hand may consist of :—

Gold coin ;
Silver ,,
Minor ,,
Gold certificates ;
Silver ,,
Clearing House certificates ;
United States notes ;
Treasury ,,

Clearing house certificates represent gold deposited in a vault belonging to any Clearing House. A reserve agent is another bank which has been appointed by the Comptroller of the Currency to hold cash on behalf of another bank. With regard to the reserve fund the banks are classified into three groups, viz., central reserve banks, reserve banks, and country banks.

The first-named must keep a reserve of 25 per cent. of their net deposits, and the second must also have a reserve of 25 per cent., but they have the privilege of depositing one half of this 25 per cent. with a bank in a central reserve city, which has a population of at least 200,000. Country banks need only maintain a reserve of 15 per cent. of their net deposits, and of this amount it is not necessary that more than two-fifths should be kept in their own vaults. The remainder may be placed in a reserve city which has a population of 25,000 or a central reserve city. Some idea can be formed of the methods of American banking if an examination is made of the assets and liabilities of the National Banks, which may consist of the following items :—

RESOURCES.	LIABILITIES.
Loans and discounts.	Capital stock paid in.
Overdrafts.	Surplus fund.

U.S. bonds to secure circulation.
U.S. bonds to secure U.S. deposits.
Other bonds to secure U.S. deposits.
U.S. bonds in hand.
Premium in U.S. bonds.
Bonds, securities, etc.
Banking house.
Furniture and fixtures.
Other real estate owned.
*Due from National banks.
*Due from State banks and bankers.
Due from approved reserve agents.
Internal Revenue stamps.
*Cheques and other cash items.
*Exchange for Clearing House.
*Bills of other National banks.
Fractional currency: nickels and cents.
Specie.
Legal tender notes.
Five per cent. Redemption Fund.
*Due from U.S. Treasurer.
U.S. bond account.

Undivided profits less expenses and taxes.
National bank-notes outstanding.
*Due to other National banks.
*Due to State banks and banking.
*Due to State banks and bankers.
*Due to trust companies and savings banks.
*Due to approved reserve agents.
*Dividends unpaid.
*Individual deposits.
*U.S. deposits.
*Deposits of U.S. disbursing officers.
Bonds borrowed.
Notes and bills re-discounted
Bills payable.
*Demand certificates of deposit.
Tax reserve.
*Special deposits.
*Certified cheques.
*Cashier's cheques outstanding.
U.S. bond account.
Liabilities other than those above.

In order to arrive at the net deposits it is necessary to take out all the items marked with an asterisk on both sides of the account, and the balance represents the amount upon which a fixed percentage must be kept as reserve. The Comptroller of the Currency requires from each National bank at least five reports during the year; he can ask for the same at any time, and also for a special report, if he considers it necessary. This is somewhat similar to the reports which a branch manager has to submit to the directors of an English joint-stock bank.

State banks were established even before the first United States Bank was chartered, and increased in number throughout the different States with no uniformity of system, but, in course of time, as banking become better understood, there was a great improvement in method. The Bank of Massachusetts, chartered in 1784, was the earliest of such institutions, and most of them were formed for the purpose of issuing notes which were not properly protected by specie. When the National banks came into existence these State banks began to withdraw their circulating notes, a national law having been passed making the notes subject to a prohibitive tax of 10 per cent. on the average annual circulation.

State Bank.

The laws relating to such banks are somewhat similar throughout the different States. For example, in New York a State Superintendent of Banks is appointed by the Governor for a term of three years. This official exercises a control over the banks, including the savings banks and loan and trust companies, similar to that of the National Comptroller of the Currency. Reports are rendered to him every half-year; and in New York State, as in most of the other States (Rhode Island being an exception to the general rule), an examination of each bank is made by the department at regular intervals, but at least once in each year. Loans may not be made to any one person, firm, or corporation in excess of 20 per cent. of a bank's combined capital and surplus. Notes, or other evidences of debt, are not to be purchased for less than the amount due according to the face value of the same. Loans may be made upon mortgages, but, except for owning a banking house, real estate may not be acquired otherwise than for a debt.

State Banks.

A money reserve of 15 per cent. is required in New York City, and a 10 per cent. in other cities of New York State. Stockholders are responsible for the debts of the bank to the extent of the par value of their stock in addition to the amount invested in such stock.

Under the New York State law, 6 per cent. is the legal rate of interest, but demand loans secured by collateral securities may be made at higher rates. There were 4,191 State banks in 1899. The assets were $1,636,000,000, made up as follows :—

Loans on real estate	$51,000,000
Other loans	857,000 000
Stocks and bonds	172,000,000
Due from banks	255,000,000
Real estate	68,000,000
Cash and cash items	216,000,000
Liabilities :—	
Capital stock	$233,000,000
Surplus and undivided profits	113,000,000
Deposits	1,164,000,000
Due to banks	108,000,000

In 1903 the total number of State and private banks was 8,745, with a capital of $578,418,944, and deposits of $6,352,700,055.

There have been more failures amongst the State banks than the National banks. For six and a half years ending June, 1899, 283 State banks failed, having assets according to their books of $62,739,332. Of these sums there had been recovered from shareholders $1,517,178, and from the liquidation of assets $32,925,233, or about 56 per cent. The total failures of National banks during thirty-six years from 1864-99 were only 387, the nominal assets of the National banks were $235,636,778. Upon the assets of 375 of these there had been collected on 31st October, 1899, either from stockholders or from the liquidation of assets, 73·92 per cent.

From 1899 to 1903 there were 157 banking institutions other than National Banks which failed with liabilities of $39,093,966, and assets of $23,539,700.

The State banks can be converted into National banks by application to the Comptroller, either by a resolution of the holders of two-thirds of the capital stock of any bank, or they may go into liquidation in conformity with the laws of the State in which they are situated. After this has been done the bank must file accounts in the prescribed form with the Comptroller of the Currency.

New York Banking Methods.

The organisation of a large bank in New York is similar to that of a bank in London. The paying and receiving tellers receive and pay cash, the note teller and his assistants take charge of all cash remittances, collect bills receivable, and make out credits for the General Ledger.

The discount clerk is in charge of all the work relating to the discount of bills. The cheque clerk is required to make up exchanges for the Clearing House and to carry out other duties, such as examining signatures on cheques presented for payment.

The City Collection department is similar to the Walk office of a London bank. The money department has charge of al moneys received by the paying and receiving tellers.

The Credit Department undertakes the duties of ascertaining the means and character of persons applying for loans, and keeps a record of the same.

The duty of the cashier's clerk is to open new accounts, to purchase and sell securities, and to supervise the work connected with the receipt of dividends on behalf of customers.

The American banks have increased their capital considerably, and this has enabled them to give greater facilities to their customers. The consolidation of various commercial undertakings has somewhat modified the old method of lending to individuals, consequently the banks have to rely upon certified balance sheets, and this practically means the financing of large commercial enterprises.

When there are bills offered for discount in New York, the first thing to be ascertained is the state of the bank's funds. Then again preference is given to depositors rather than to outsiders, and lastly there is the important question of credit. Great care is taken to have a complete record of the position and standing of firms and corporations, and there is a common form in use amongst the banks in the States, which contains the information respecting the capital, assets and liabilities, investments, character and value of their property, buildings, machinery, appliances, stocks of goods, cash in hand and at the bank, the amount and cost of business done, profits, etc., in fact, everything which a banker should know before risking in any way the resources of the bank. Such a report must, however, if possible, be verified and confirmed by a personal knowledge, or further enquiry must be made. Sometimes bills are taken from a note broker on option, that is, with the privilege of returning them on a specified day.

When a country bank applies for a loan on its own paper, the statement is made in the following form :—

Form in which Security is offered against Loan.

OFFERED BY SECOND NATIONAL BANK,
MONMOUTH, GA. *Dated August* 31, 1903.

	Single	Bills Rec.	Coll. at		
Under Discount ..		$22,698	$25,000	Gross Profits for last six months	$23,387
Purchased				Average Balance	$36,100
Loan Department				Present Balance	$26,471
				Amount Offering	$25,000
				Time	4 mos.
				Total if accepted	$72,698

Resolution	Last Statement	Letters of Inquiry	Reports	Approved	Disapproved
OK	June 16, 03 Our form				

It will be noticed from this form that country banks offer collateral security for the due repayment of advances. In America it would be impossible to advance money with absolute security unless the credit department were properly organised, so that a minute investigation of every loan or advance could be carried out. The precautions taken in the case of bills discounted are not required when loans are granted against security. The custom is for loans to be made "on time" or "on call"; in the former case the time is either thirty, sixty, or ninety days, but it may be longer. Such loans are made

Loans on Collateral Security.

against bills receivable, or against stocks or bonds. And in the latter case there is a loan note similar to the letter of charge, which is used in this country, viz., a right of sale, and also an undertaking to deposit additional securities in case of depreciation in value. A margin of 20 per cent. is usually required as cover; the securities deposited are placed in an envelope, and upon the outside the particulars of the deposit are given. The following specimen is taken from "The Modern Bank," by Amos K. Fiske:

No. 489. Page 98.

THE IRVING NATIONAL BANK OF THE CITY OF NEW YORK.

New York, Sept. 16th, 1903.

Demand Loan to—

BELL & STREET.

$50,000. 4 per cent.

Collaterals.

100	N.Y. Cent. and H. Riv.	@	120	12,000
200	Western Union	,,	82	16,400
300	Erie	,,	28	8,400
300	Steel Pfd.	,,	68	20,400
100	Atchison	,,	64	6,400
				$63,600

Private Banks.

Although private banks in America are somewhat declining, there are still a large number in existence, especially in the central Western States. In 1899, 756 of these had total assets of over $87,000,000, of which about $14,000,000 represented the investment or other holding of individual capital, and about $65,000,000 depositors' funds. Private bankers hold an important position in American finance, and may be classified in two divisions, viz., those who carry on a general business, and those who have dealings with the foreign exchanges. Again, private bankers deal with investments such as the buying and selling of stocks and shares. They also float loans for corporations, or undertake to have them underwritten. For this purpose it is sometimes necessary to form a syndicate, which may consist of a group of banking houses pledged to take a certain amount of the stock offered.

Private bankers also act as agents for many English banks and large financial firms; in this capacity a series of drafts are drawn either in London or New York for the purpose of settling the exchanges between the two countries, or for business transactions.

The banking power of the United States has increased enormously in recent years, the increase from 1890 to 1903 being 158 per cent., against 66 per cent. of other nations of the world.

The present position in the United States is as follows :—

	Number	Capital	Surplus	Deposits	Circulation	Total
National Banks	4,939	$743,506,048	$542,183,537	3,348,095,922	359,261,109	4,993,046,686
State etc.	8,745	578,418,944	731,314,014	6,352,700,055		7,662,433,013
Non reporting Banks (Estimated).	4,546	152,403,520		502,522,431		654,925,951
	18,230	$1,474,328,512	$1,273,497,551	10,203,318,478	359,261,109	13,310,405,650

Trust companies and savings banks are concerned in operations which more properly belong to bankers strictly so called. Their exact position is likely to cause considerable discussion in the near future, but at present it is unnecessary to examine them in detail.

CHAPTER VIII

THE LAW OF BANKING

It is quite impossible to treat of banking and banking practices without referring, however briefly, to its legal side. The transactions of a banking house are in general so mechanical and so straightforward that it is surprising when anything goes wrong. But in spite of the best efforts of bankers difficulties must arise at some time or other. And these difficulties spring from various causes. The banker may be negligent or careless in his business. The customer may be guilty of some carelessness or mistake. A third party may be fraudulent in his dealings. In any of these cases it is probable that a loss will be incurred. The question of all importance is, who is to bear the loss? In the present chapter it is intended to set out the legal position of a banker in relation to those matters with which he has to deal in the ordinary course of business.

Legal Side of Banking.

In the first place it must be borne in mind that the relationship existing between a banker and his customer is that of debtor and creditor. A banker is not in any sense a trustee of the money deposited by his customer, and may therefore use that money as he chooses, being under no other obligation than that of repayment in the ordinary course of business, or according to any special arrangement made. If this were not so, a banker might be called upon by the customer to account for all the profits made in his financial transactions, and at the same time the customer could refuse to acknowledge any of the losses incurred. The existence of anything like trusteeship would render modern banking an impossibility.

Relationship of Banker and Customer.

Again, by the Statute of Limitations a debt cannot be claimed if six years have elapsed since the debt was contracted, unless the debtor has in the meantime acknowledged the debt in writing, or paid some portion of the debt, or paid interest upon the amount of it. It has been clearly settled that if a customer deposits money in a bank, and leaves

Statute of Limitations.

it on current account, and no transactions between the banker and the customer take place for six years, the money becomes the property of the banker. And in the same way if a banker allows a customer to have an overdraft, the banker's claim to be repaid the amount of the overdraft is barred after six years in the absence of any dealings, an acknowledgment in writing, or payment of interest. In practice this question of barring claims seldom arises, because transaction after transaction takes place, and by reason of what is known as the appropriation of payments the period of six years is very unlikely to run between one payment in and another payment out. It is the general practice of bankers not to inquire for claimants to funds which thus become legally their own, but at the same time not to insist on their legal rights under the Statute of Limitations as against claimants making good their claims.

Account of Minor.

There has been considerable discussion as to the position of a banker who has allowed a minor to open a current account at his bank. It has been argued that an infant can neither draw a valid cheque nor give an effective discharge to his banker for sums of money advanced upon cheques drawn by the infant. Without entering into details it is submitted that each of these arguments is incorrect, although there are no legal decisions setting out the law quite clearly. The banker must, however, be careful in his dealings with an infant. So long as there is a balance on the right side, and no difficulties have arisen owing to such irregularities as forgeries, unauthorised payments, etc., it is hardly possible to conceive what claim an infant could set up against a banker. But if the banker allows the infant to have an overdraft, he cannot recover the amount of it from the infant. The overdraft is money lent, and the infant is protected by statute. In addition to this any security given by an infant for such overdraft is null and void.

Liability of Parties on Bills and Cheques.

It should be noted that generally as regards bills of exchange the capacity and authority of parties to incur liability upon them is co-extensive with capacity to contract. An infant, therefore, cannot be held liable upon a bill of exchange, as drawer, acceptor, or indorser, and it is immaterial that the consideration for the bill is the price of necessaries supplied to the infant. A married woman who is a party to a bill is only liable as far as her separate estate is concerned. Lunacy and drunkenness are defences, *sub modo*, in an action upon a bill. And fraud may wholly vitiate the instrument. Thus in *Foster v. Mackinnon* (1869), an old man of feeble sight was induced to sign a bill of exchange, being told that it was a document of a different character. In the absence of any proof of negligence on his part, he was held not to be liable upon the instrument. And this case was followed in *Lewis v. Clay* (1898), where a joint maker of a promissory note fraudulently induced another person to add his name to it, in the belief that he was merely witnessing a signature. As there was no proof of any negligence, the signatory was held not to be liable to a payee for value.

It is quite open for a banker to make a special contract with his customer upon various matters, but into anything of this kind it is not possible to enter in the present chapter. Nothing is considered beyond the ordinary rules, duties, and obligations existing between the parties.

Opening an Account.

Upon the opening of an account a banker becomes the debtor of the customer to the amount of money standing to his credit in the bank. The mere paying in of a cheque by a new customer will not necessarily constitute the opening of an account. But as soon as the banker has received cash or the proceeds of the cheque—that is, of course, if a cheque is the first payment in—the account is opened, and the customer is entitled to operate upon it. The ordinary method of operation is by means of cheques.

When money was first deposited in a bank the method of withdrawal by a customer was a simple process—the customer gave written or verbal instructions that his account should be debited with the amount required by him. There are some interesting specimens of such orders in the possession of Messrs. Child & Co., of which the following are examples :—

Dec. 11, 1680.

Received of Sir Francis Child £73 1 2 *being the balance of my account to this day. I say* £73 1 2.

Ellen Gwyn.

Witness.

J. A. Boothby.

Mr. Rogers pray paye Fifty guineas to the bearer and place it to my account.

Cleveland.

April 12, 1689.

In course of time a common form of order was made use of, somewhat like the old order, and eventually the modern well-known form of cheque was introduced.

Bills of Exchange Act.

The law as to cheques, as well as that referring to bills of exchange and promissory notes, has been codified by the Bills of Exchange Act, 1882. This Act has been signally successful upon the whole, though the decisions of the House of Lords in the cases of *Capital and Counties Bank v. Gordon*, and *London City and Midland Bank v. Gordon* (to which reference will be made later) caused uneasiness in banking circles, and made it necessary to amend the law as far as collecting bankers were concerned. This was done by means of the Bills of Exchange (Crossed Cheques) Act, 1906. See page 149.

Cheque Defined.

By the Act of 1882 (sect. 73), a cheque is defined as "a bill of exchange drawn on a banker payable on demand." In order to understand this definition thoroughly reference must be made to the third section of the Act, where a bill of exchange is defined as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to, or to the order of, a specified person, or to bearer." The definition must be most carefully considered, for in those cases where statutory protection has been given to bankers in respect of negotiable instruments, the protection is not extended when the documents do not fulfil all the requirements of the definition.

Bill of Exchange Defined.

It is no part of the definition that a cheque should be an inland bill, or that it should be drawn by a customer upon his banker.

Stamp.

Formerly cheques were exempt from stamp duty, but it was necessary that they should be issued within fifteen miles of the bank upon which they were drawn. The enactments as to this, however, have been long repealed, and a stamp of one penny is the duty imposed upon every cheque. Since September 1st, 1918, the duty has been increased to 2d.

Although the general rules governing bills of exchange are applicable to cheques, the following points of difference should be remembered:

Bill of Exchange and Cheque Compared.

(*a*) A bill of exchange must be accepted before the acceptor can be liable upon it. A cheque is never accepted by a banker, and therefore the banker is never liable to the holder of the cheque for refusing payment of it. His liability, if any, is to his customer.

(*b*) A bill must be duly presented for payment, or the drawer will be discharged. The drawer of a cheque is not discharged by delay in presenting it for payment, unless, through the delay, the position of the drawer has been injured by the failure of the bank, when he had sufficient money deposited to meet the amount of the cheque. In such a case the holder must prove for the amount of the cheque in the winding up or bankruptcy of the bank.

(*c*) No notice of dishonour is necessary if a cheque is not met; want of assets is a sufficient notice.

Requirements of Cheque.

The absolute requirements of cheques, so far as they affect bankers, are as follows: (1) They must be unconditional. In a recent case it was held that where documents were issued which required the signing of a particular form of receipt before payment would be made, these documents were not cheques. (2) They must be imperative in terms. But the mere insertion of words of courtesy will not necessarily render them less imperative. (3) They must be addressed by one person to another. There must be a drawer and a drawee. (4) They must be payable on demand. (5) They must be payable to or to the order of a specified person or to bearer.

Form of Cheque.

As cheque books are issued by bankers to their customers there is rarely any question as to the form of cheques; but it sometimes happens that customers who have not their cheque books with them make use of ordinary paper and write out what is intended to be a cheque. In such cases the greatest care is needed in dealing with the instruments, as they may turn out to be irregular or incomplete in various respects. A banker should always scrutinise such documents very closely. A difficulty may arise about the stamp. It is a common fallacy that if a cheque is issued unstamped any holder may affix an adhesive penny stamp to the document and afterwards cancel the stamp. This is not so. The Stamp Act of 1891 provides expressly that the duty may be denoted by an adhesive stamp, but that the stamp is to be cancelled by the person by whom the cheque is signed, before he delivers it out of his hands, custody, or power. See Finance Act, 1918.

The " holder in due course " is a person who is frequently referred to in matters connected with cheques, bills of exchange, etc. It may be useful to state here who is such a holder. By the Act he is defined as a person " who has taken a bill (which includes a cheque) complete and regular on the face of it, under the following conditions, viz. :

Holder in Due Course.

(*a*) That he became the holder of it before it was overdue, and without notice that it had been previously dishonoured, if such was the fact.

(*b*) That he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it."

When a cheque is presented for payment across the counter of a bank, it must be examined to see whether it is in order. As has just been remarked the form of cheque is ordinarily settled and issued by the bank itself. The amount of the cheque will not be paid over the counter if the cheque is crossed (see *infra*), nor will payment be made if the date has not arrived. But if the cheque is signed by the drawer, if it is not crossed, if the date is already past or is the day of presentment, if the cheque is payable to order and is indorsed with the name of the payee, and if the banker has a balance in hand to the credit of the drawer sufficient to meet the whole amount of the cheque, the person who presents the cheque is entitled to receive payment of the same, and a banker who neglects to honour the drafts of his customer is liable to an action for damages at the suit of the customer. As it was stated above, there is no liability resting upon the banker so far as the person who presents the cheque for payment is concerned.

Payment over Counter.

It has been pointed out that a cheque will not be paid if it is presented on a day previous to that named in the cheque. It is no uncommon practice for people to post-date cheques. This seems to be quite permissible by sect. 13, sub.-sect. 2, of the Bills of Exchange Act, since it is there stated that a bill is not invalid by reason of its being post-dated. But

Date of Cheque.

it is presumed that if a post-dated cheque were put into circulation like a bill of exchange, and if the post-dating exceeded three days from the date of the drawing, an *ad valorem* stamp would be payable upon the cheque, and any person who dealt with such a cheque upon which the proper duty had not been paid, would render himself liable to a penalty of £10. A person who takes a post-dated cheque should keep it in his own possession until the proper date arrives.

But just as a cheque will not be paid if its date has not arrived, so also will payment be refused if there has been great delay in presenting it. At common law the mere omission to present a cheque for payment did not discharge the drawer until six years had elapsed. But now if a payee does not present a cheque within a reasonable time, and the balance of the drawer is reduced, or the bank fails—provided always that the drawer had originally sufficient funds to meet the cheque—the drawer is absolutely discharged. What is a reasonable time depends upon the facts of the particular case. Generally speaking, however, a cheque is considered to have been presented within a reasonable time when it has been presented according to the following rules:

Stale Cheques.

(*a*) If the person who receives a cheque and the banker on whom it is drawn are in the same place the cheque must, in the absence of special circumstances, be presented for payment on the day after it is received.

(*b*) If the person who receives a cheque and the banker on whom it is drawn are in different places, the cheque must, in the absence of special circumstances, be forwarded for presentation on the day after it is received, and the agent to whom it is forwarded for presentation must present it on the day after he receives it.

It is a custom of bankers not to pay cheques which are not presented until a considerable period after their ostensible date of issue. With some banks the period is six months, whilst with others it is as long as twelve months.

A banker is bound to know the signature of his customer. For this purpose he is entitled to apply repeated tests, if he cares to do so. The handwriting of men and women varies from time to time, and a banker is only acting with common prudence if he takes measures to protect

Signature of Customer.

himself against loss. If a banker pays a cheque which bears a signature as drawer purporting to be that of his customer, and the signature turns out to be a forgery, the banker is the person who loses the money. He cannot debit his customer with the amount paid. And this is so, even though the customer has been careless in the handling of his cheque book, and has left it about in such places so as to render it easy for a thief to abstract one or more cheques from the book. The reason of this rule is obvious. If a customer were to be held liable to be debited for money paid under a forged order, his balance would decline in an extraordinary fashion—in fact, any person who knew that he had a banking account could forge his signature and obtain his money. It is the banker's business to prevent this, and his skill and experience enable him to accept the risks of the position.

Amount of Cheque.

The date and the signature of the drawer being disposed of, the next point to be considered is the amount. In the body of a cheque the amount is written in words, and figures, which ought to correspond with the writing, are entered in the bottom left-hand corner. If there is a discrepancy between the two the words govern the instrument, so that if a cheque is drawn for "twenty pounds five shillings and ninepence," and the figures are £18 4s. 7d., the former would be the amount payable. It is the usual custom, however, for a banker to return such a cheque marked "body and figures differ." It is scarcely necessary to state that the cheque must be drawn for money and money only.

Alteration of Amount.

But what is the position of a banker as to the amount of a cheque, admitting that there is no discrepancy between the words and the figures, if the amount has been altered since it left the hands of the drawer? The answer to this question often involves a consideration of the facts of the case. Since there is a contractual bond between the banker and his customer, each must act towards the other with ordinary care, in the usual course of business, and not be guilty of any negligence. If a customer draws a cheque so carelessly and leaves blank spaces which may make it possible for a forgery to be committed, and the amount for which the cheque is drawn is altered and increased, the customer must bear the loss if the banker pays the increased amount. The customer suffers on account of his own negligence, the banker not having been guilty of any. As this decision is one of the utmost importance, the facts of the case which settled the position (*Young v. Grote*, 1827) are here given briefly. Mr. Young delivered to his wife certain printed cheques signed by himself, but with blanks for the sums, requesting his wife to fill up the blanks according to the exigencies of his business. She caused one to be filled up with the words, " fifty pounds two shillings," the " fifty " being commenced with a small letter, and placed in the middle of a line. The figures £50 2s. were also placed at a considerable distance from the printed £. In this state Mrs. Young delivered the cheque to her husband's clerk to receive the amount; whereupon he inserted at the beginning of the line in which the word " fifty " was written the words " three hundred and," and the figure 3 between the £ and the 50. The banker paid the cheque as for £350 2s. in the ordinary course of business, and it was held that he was entitled to debit Mr. Young with the amount. The case would be different if the customer drew a cheque in the ordinary way and it was afterwards altered. It is the duty of the banker to take care that he is not imposed upon by alterations in the amount of a cheque after it has left the possession of the drawer, when the drawer has not been guilty of any negligence. The authority of *Young v. Grote*, however, was shaken by the decision in *Colonial Bank of Australia v. Marshall* (1906); but it was firmly re-established by the decision of the House of Lords in the case of *London Joint Stock Bank v. Macmillan* (1918), the facts of which were not altogether dissimilar from those in *Young v. Grote*.

Banker's Caution.

A banker is liable, as has been stated, to an action for damages if he fails to honour the drafts of his customer. The credit of the customer may be seriously damaged by the dishonouring of his cheques. The obligation to honour cheques continues not only so long as there are assets of the drawer to meet the cheques, but even afterwards, if there has been an agreement between the banker and his customer, to the extent of any overdraft which the banker has undertaken to allow to his customer. But just as the banker must take care not to dishonour his customer's cheques, so he must be on his guard to see that he does not pay the amount of cheques which are drawn and presented when there are no assets of the customer to meet them, and no agreement has been made as to an overdraft. In an old case (*Chambers v. Miller*, 1862) a banker paid a cheque on presentation, but immediately afterwards discovered that his customer, the drawer, had no assets to meet it. It was held that the payment was irrevocable, and the money not recoverable from the payee. The ground of the decision was that there had been no mistake of fact between the banker and the person who received the payment—a mistake of fact between parties to a contract generally allowing a claim for repayment to be made—but a mistake between the banker and his customer. From the same case it is clearly established that the property in money given in payment of a cheque passes as soon as the money is placed on the counter of the bank.

No Part-Payment of Cheque.

A banker will not pay a cheque drawn for an amount in excess of the drawer's balance. There is no part payment of a cheque in England and Ireland. But it appears that the presentation of such a cheque in Scotland attaches any funds in the account upon which it is drawn. It sometimes happens that a payee or holder of a cheque is willing, and offers, to pay in the deficit in order to withdraw the whole amount of the balance at the bank. For example, a holder of a cheque for £50, the drawer's balance being £40, offers to pay £10 into the drawer's account so as to get the £40 at least, for if such a cheque is drawn under the circumstances the banker must refuse payment of any sum. Such a proceeding is clearly suspicious and irregular. It is hardly conceivable that the holder can know of the state of the customer's account without a breach of duty on the part of the banker, the latter being under an obligation not to disclose the business of his customers.

Pass Book.

The state of account between the banker and his customer is shown by the ledger, but the customer is provided with a copy of this account in his pass book. This will be explained more fully hereafter, but it is useful to notice here that the entries in the pass book are *primâ facie* evidence against the banker. When the customer receives the book and returns it without comment it would seem to signify that the entries are correct. If, however, the customer has relied upon the entries in the pass book as being correct, the banker is estopped from denying that he has received the money entered therein. This was decided in the case of *Skyring v. Greenwood* (1825). It was there held that a credit entry is a representation binding the bank, if the customer is able to show that he has altered his position in reliance thereon. Evidence may, of course, be adduced to prove that the entries were made in error, and a reasonable time would be allowed for rectification. Since, therefore, the pass book is in fact a statement of account showing a settlement, it should be carefully examined by the bank before it is delivered to the customer, and the customer should also carefully check all the entries made to see that they are correct.

Garnishee.

If the banker has been served with a garnishee order, that is, an order of the court directing him not to pay over any moneys standing to the credit of a customer to any person whatever, the order binds the whole of the balance standing to the current account of the customer, even though the amount on current account largely exceeds the amount of the debt. In the case of *Rogers v. Whiteley* (1892), it was held that a garnishee order *nisi* in the usual form, based on a judgment against a customer and served upon his banker, tied up the whole of that customer's credit balance on current account at the date of the service of the order, and that the account could not be operated upon by cheques drawn by the customer issued prior to the service of the order but not presented until after the order had been served.

Bearer and Order Cheques.

A cheque may be payable to bearer or to order. If the cheque is payable to bearer and open (crossed cheques have not yet been considered at all) no indorsement is necessary. Mere presentation is enough, and if the banker is satisfied as to the date, the signature of the drawer, and the amount, payment is made at once. If, however, the cheque is payable to order it must bear the indorsement of the payee, or what purports to be the indorsement of the payee. And here begins the dividing line which separates the liability of an ordinary person from that of a banker. When a tradesman cashes a bearer cheque he is in the same position as a banker. He takes it for what it is worth and runs the risk of loss through a forged signature of the drawer and insufficiency of assets. In the case of an order cheque, however, a tradesman who cashes a cheque bearing a forged indorsement loses his money, whereas a banker who pays such a cheque drawn upon himself is under statutory protection. But a banker who becomes the holder in due course of a cheque bearing a forged indorsement and which is drawn upon a bank other than his own is in the same position as a tradesman. By section 24 of the Bills of Exchange Act, 1882, it is provided that "where a signature on a bill is forged or placed thereon without the authority of the person whose signature it purports to be, the forged or unauthorised signature is wholly inoperative, and no right to retain the bill or to give a discharge therefor or to enforce payment thereof against any party thereto can be acquired through or under that signature, unless the party against whom it is sought to retain or enforce payment of the bill is precluded from setting up the forgery or want of authority." If the law rested there a banker would be in the same position as another person; he would have to bear the loss caused by dealing with a document which had ceased, through the forgery, to be what it purported to be. There is no hardship upon an ordinary individual in making him bear the loss entailed by dealing with a forged document. He acts with his eyes open and knows that he is taking a risk. But banking business would be impossible if it were the law that a banker must know or be responsible for the signatures of the indorsers of cheques. Consequently protection is given to a banker by section 60 of the Act. The section is as follows: "When a bill payable to order on demand is drawn on a banker—and this is a cheque—and the banker on whom it is drawn pays the bill in good faith and in the ordinary course of business, it is not incumbent on the banker to show that the indorsement of the payee or any subsequent indorsement was made by or under the authority of the person whose indorsement it purports to be, and the banker is deemed to have paid the bill in due course, although such indorsement has been forged or made without authority." But although the section gives great protection to the banker, much care must be exercised in order that its benefit may be claimed. For example, if the cheque is drawn to the order of a particular person, and the indorsement is a name differing in any respect from that of the payee, the banker would be guilty of negligence in paying such a cheque, and could not debit his customer with the amount paid. Also, presumably, if a banker paid the cheque after banking hours, or if he paid across the counter in contravention of a crossing of the cheque, he would not be acting

Forged Indorsements.

Protection of Banker.

in the ordinary course of business, and again he would not be entitled to debit his customer with the amount paid by him. But if a cheque is in all respects quite regular upon its face, and when presented across the counter bears an indorsement which is the same name as that of the payee, there is no liability resting upon the banker for paying the amount of the cheque if it turns out that the indorsement is forged. The customer is debited with the amount.

Where the payee of a cheque is a fictitious or non-existing person the cheque may be treated as one payable to bearer, that is, the cheque needs no indorsement. Therefore a banker who pays such a cheque is only liable to refund the amount of it if the signature of the drawer is a forgery. In some respects cheques drawn to "wages or order," or to "petty cash or order," are considered to be in the same category; but in practice such cheques are indorsed by the drawer.

Fictitious Payee.

The duty and authority of a banker to pay cheques drawn on him by his customer are determined by countermand of payment, and by notice of the customer's death or bankruptcy. It should be noticed, however, that where a firm consisting of several partners has a banking account, the death or bankruptcy of one or more, but not of the whole, of the partners does not determine the authority.

Determination of Banker's Authority.

It was to avoid as far as possible the losses incurred both by bankers and customers that the crossing of cheques was introduced. The remedy is not infallible, as will be seen directly, but the fact of a cheque being paid through a banker instead of over the bank counter makes it less easy for frauds to be committed, and more easy for them to be detected when they have been completed. As Lord Cairns said in the case of *Smith v. The Union Bank* (1875), the crossing operated as a caution to the banker.

Value of Crossed Cheques.

The mere crossing of a cheque in no wise affects the negotiability of the instrument; it simply affects the mode of payment. Two statutes passed upon the subject have been repealed by certain sections of the Bills of Exchange Act, 1882, and the law upon crossed cheques is contained in sections 76 to 82 of that Act.

A cheque is crossed generally when it bears across the face of it an addition of—

(*a*) The words "and Company," or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable;" or

Crossing Defined.

(*b*) Two parallel transverse lines simply, either with or without the words "not negotiable."

A special crossing is constituted when in addition to the above the name of a banker is written on the face of the cheque.

It should be noted that the provisions of the Bills of Exchange Act as to crossed cheques apply to dividend warrants, and also to "any document issued by a customer of any banker, and intended to enable any person to obtain payment from such banker of the sum mentioned in such document."

The crossing need not necessarily be made by the drawer of the cheque. A holder may always cross it, either generally or specially, and may add the words "not negotiable." And where a cheque is crossed specially, the banker to whom it is crossed may again cross it specially to another banker for collection.

The crossing authorised by the Act is a material part of the cheque; and it is unlawful for any person to obliterate or to add to or alter the crossing, except as above stated. The drawer of a cheque sometimes strikes out a crossing at the request of the payee and writes the words "pay cash" on it. This practice is not sanctioned by the Act, but it is difficult to see who is the person possessing an effective remedy in such a case.

Striking out Crossing.

The duty of a banker receiving a crossed cheque is thus set out in section 79 of the Act:

(1) "Where a cheque is crossed specially to more than one banker, except when crossed to an agent for collection being a banker, the banker on whom it is drawn shall refuse payment thereon.

Duty of Banker as to Crossed Cheques.

(2) "Where the banker on whom a cheque is drawn which is so crossed nevertheless pays the same, or pays a cheque crossed generally otherwise than to a banker, or if crossed specially otherwise than to the banker to whom it is crossed, or his agent for collection being a banker, he is liable to the true owner of the cheque for any loss he may sustain owing to the cheque having been so paid.

"Provided that where a cheque is presented for payment which does not at the time of presentment appear to be crossed, or to have had a crossing which has been obliterated, or to have been added to or altered otherwise than as authorised by this Act, the banker paying the cheque in good faith and without negligence shall not be responsible or incur any liability, nor shall the payment be questioned by reason of the cheque having been crossed, or of the crossing having been obliterated or having been added to or altered otherwise than as authorised by this Act, and of payment having been made otherwise than to a banker or to the banker to whom the cheque is or was crossed, or to his agent for collection being a banker, as the case may be."

The banker has the same protection as before in cases of forged indorsements, though he must take the same risk as to his customer's signature being correct. But if he deals with the cheque in any other manner than that authorised by the Act, his protection is gone and any loss which ensues must fall upon him. Further, if the cheque has got into the hands of a person other than the payee, provided that the payee has ever had it in his possession, the banker who has paid the amount of the cheque to a banker, or his agent for collection, being a banker, and the drawer of the cheque are entitled to the same rights and to be placed in the same position as if payment of the cheque had been made to the true owner thereof.

Collecting Banker.

The position of the paying banker having been considered, it is necessary to notice that of the banker who receives the proceeds of the cheque—the collecting banker. In order that anything can be done with a cheque, the banker must in some way or other deal with it. By the common law when one person deals with the goods of another without authority he is liable to an action for conversion. The same is the common law rule in the case of a cheque. If, therefore, A. deals in any way with a cheque which is the property of B., and has no authority so to deal with it, B. has a right of action against A. and A. will be condemned in damages. But for section 82 of the Bills of Exchange Act the position of the banker would not be different from that of any other person. But in the interests of commerce and banking it has been provided " Where a banker, in good faith and without negligence, receives payment for a customer of a cheque crossed generally or specially to himself, and the customer has no title or a defective title thereto, the banker shall not incur any liability to the true owner of the cheque by reason only of having received payment."

This protection is very great, but it will be noticed how carefully it has to be construed, so as to prevent any abuse. Good faith and absence of negligence are insisted upon. Also particularly the protection only applies to crossed cheques, and it appears that the crossing must be made before the cheque gets into the hands of the collecting banker. And then the collection must be made on behalf of a customer. The definition of customer has caused considerable litigation. The House of Lords, however, in the case of the *Great Western Railway Co. v. London and County Bank* (1901), came to the decision that in order to make a person a customer of a bank within the meaning of the protecting section, there must be some sort of account, either a current or a deposit account, in existence, or some similar relationship must exist between the banker and the person for whom he collects the cheque. The mere fact that for many years a banker has collected and paid the proceeds of cheques to a particular individual, in order to oblige him, without any difficulty arising, will not protect him when a crossed cheque comes along and the proceeds are improperly dealt with by the person who has been so repeatedly accommodated. Again, in the cases of *Gordon v. London City and Midland Bank*, and *Gordon v. Capital and Counties Bank* (1903), the position of a banker who credits his customer with the amount of a crossed cheque which is paid in for collection before payment is made was fully considered. The bankers held the position that they were entitled in any case to the protection of the statute. The position taken up by them, as summarised by Sir John Paget in his "Law of Banking," was as follows: "They claimed (1) that the crediting as cash constituted them holders for value, apart from the condition of the account; (2) that they were nevertheless within the protection of sec. 82 with regard to crossed cheques so credited; (3) that they had the right to debit the customer's account with the amount of a cheque so credited if dishonoured; (4) that they had the right, after so crediting a cheque, to return a cheque drawn against it by a customer, with the answer 'Effects not cleared.' The judgments in the cases just cited have shown that propositions

Who is a Customer?

2 and 4 are untenable." A banker had to accept one position or another.

It is unnecessary now to enter into the whole discussion, since the Bills of Exchange (Crossed Cheques) Act, 1906, has provided that "a banker receives payment of a crossed cheque for a customer within the meaning of section 82 of the Bills of Exchange Act, 1882, notwithstanding that he credits his customer's account with the amount of the cheque before receiving payment thereof."

Amending Act.

The requirement that a banker must not be guilty of negligence must be carefully noticed. It has been held that a *per proc.* signature acts as a notice that the person who thus signs has but a limited authority. A banker is negligent who does not inquire into the extent of the authority of the person who signs in this manner, and if an indorsement is forged he will be held responsible for any loss arising through him.

The addition of the words "not negotiable" changes the character of a cheque completely. The document ceases to be a negotiable instrument, and a holder in due course has no rights to it beyond those which were enjoyed by his immediate transferor. But the banker who collects and the banker who pays such a cheque are fully protected, provided the collection and the payment are in good faith, without negligence, and in the ordinary course of business.

Not Negotiable.

A custom has arisen with regard to the marking of cheques, which means that the banker who thus marks a cheque certifies to another banker that the cheque will be paid. It does not, however, amount to a binding representation on the part of the banker to a holder for value that the cheque will be paid.

Marked Cheques.

Again, in addition to crossing it is now very common for a cheque to bear the words, "account of payee." These words have no legal significance, and the negotiability of a cheque which bears them is not in any way limited. Banks have refused to take any responsibility as to cheques so crossed, because the payment of a vast number of such instruments through the Clearing House would be greatly impeded if these words created a legal limitation. They may, however, in some cases constitute distinct notice to a receiving

Account of Payee.

banker, and if disregarded may give rise to an action for negligence. On this point see the case of *Ladbroke v. Todd* (1914).

Property in Cheques.

Upon payment a cheque becomes the property of the drawer, but a banker is entitled to retain the cheque of his customer as a voucher until the account between them is settled.

Bills of Exchange.

As far as regards bills of exchange, other than cheques, banks are principally concerned with their negotiation, and the position of a banker is no more favourable than that of any other person. It is therefore necessary for their own protection that bankers should make special arrangements with their customers in order to avoid risk of loss. Many bills are accepted payable at a particular bank, and the bank must pay them in due course if they have contracted to do so with their customers. There is no reason, however, why the bankers should not impose special conditions upon their customers so as to protect themselves against fraud and forgeries.

The definition of a bill of exchange has been already given. It is a definition which should be committed to memory by every person connected with banking business, and the whole of the qualities necessary to render a document a valid bill of exchange, and therefore a negotiable instrument, should be most carefully considered.

There is no particular form of words needed for a bill of exchange, but it is seldom that an inland bill, *i.e.*, a bill drawn and payable within the British Isles, or drawn within the British Isles upon some person resident therein, differs from the following:

Form of Bill.

£450. *London, Sept. 1st,* 1905.

Three months after date pay to Mr. Alfred Jones or order the sum of four hundred and fifty pounds for value received.

To *John Smith.*

MR. EDMUND ROBERTSON
Southampton."

Smith is the drawer of the bill, Robertson the drawee, and Jones the payee. As soon as the drawee has written his signature across the face of the bill, he is said to have accepted it, and he is called the acceptor. The Bills of Exchange Act does not require anything more than the signature (sect. 17), but it is a common practice for the acceptor to write the word "accepted" above his signature.

The amount for which a bill is drawn is generally indicated in figures in the top left-hand corner, and in words in the body of the bill. If the amounts do not agree, it is that denoted by the words which governs the instrument.

Amount.

A bill is quite valid, although it is not dated, or even if it is antedated, post-dated, or dated on a Sunday. The words "for value received" are almost invariably used; but they are quite unnecessary as consideration for a bill of exchange is always presumed until the contrary is shown.

Date and Statement of Value.

Bills vary greatly as to the times at which they are drawn. Some are drawn "at sight," others "on demand." The time at which payment is to be made is fixed by the bill itself; but in the case of bills which are drawn otherwise than "at sight" or "on demand," a period of three extra days is allowed, called "days of grace," before payment can be demanded. Thus, if a bill is drawn on the 1st January payable in three months (and month by the Act means a calendar month) the date of payment is the 4th April. If the third day of grace falls on a Sunday, Christmas Day, Good Friday, or a day appointed by Royal Proclamation as a public fast or thanksgiving day, the bill is payable on the last preceding business day; if it falls on a Bank Holiday, the bill is not payable until the next succeeding business day. If the last day of grace is a Sunday, and the preceding day a Bank Holiday, payment is due on the succeeding business day. No days of grace are allowed in the case of bills which are payable on demand (including cheques) or at sight, and no days of grace are allowed if a bill is drawn in some such style as the following: "Payable, Sept. 10th, 1905, fixed."

Days of Grace.

The payee of a bill is very frequently the drawer himself. The wording of the bill is then "pay to me or my order." Instead of being made payable to order a bill may be made payable to bearer. By section 8 of the Act a bill is payable to bearer which is expressed to be so payable, or on which the only or last indorsement is an indorsement in blank. And by section 7, where the payee is a fictitious or non-existing person the bill may be treated as payable to bearer. This last named section gave rise to a remarkably interesting case, which was eventually decided by the House of Lords in 1891, and the

Fictitious Payee.

case is very important because it shows what liability may attach to a banker at whose bank bills are made payable, and how such liability may be avoided. The facts of the case were as follows: Messrs. C. Petridi and Co. were a firm carrying on business at Constantinople. Vucina, a foreign correspondent of the firm of Messrs. Vagliano, who carried on business in London, was in the habit of drawing bills on Messrs. Vagliano to the order of Messrs. Petridi and Co. A clerk who was employed by Vagliano forged certain bills, having himself put in the name of Petridi as payees, and that of Vucina as drawer. As the bills were payable to the order of Petridi an indorsement was necessary, and he forged the indorsement of Petridi and made it an indorsement to a non-existing person, to whom he gave the name Maratis. The bills were made payable at the Bank of England When they were presented in due course at the bank the bills were paid across the counter. In this way the clerk of Vagliano managed to secure something like £70,000 for himself. At length the forgeries were discovered, and the question then arose as to who should bear the losses incurred, Vagliano or the Bank of England? It was eventually decided that the bills having been made payable to a non-existing person they were payable to bearer, and the bank incurred no responsibility through having treated them as such. It was also held that a fictitious or non-existing person includes a real person who never had or was intended to have any right in the bill, and who was named by way of pretence only. The case of Vagliano was followed and approved in 1897 in an action on certain cheques (*Clutton v. Attenborough*).

Vagliano's Case.

But this doctrine must not be pushed too far. Thus, in *Vinden v. Hughes* (1905), the plaintiffs, market salesmen, had in their employ a confidential clerk and cashier whose duty it was to fill up cheques payable to the order of various customers of the plaintiffs with the names of such customers and the amounts payable to them respectively, to obtain the signatures of the plaintiffs thereto, and then to post the cheques to the customers. Between the years 1901 and 1903 the clerk made out twenty-seven cheques to the order of various customers, amounting in all to £487, obtained the signature of the plaintiffs thereto, and misappropriated them, and, having forged the indorsements, negotiated them with the defendant, who gave full value

Case of Vinden v. Hughes.

for them in good faith, and obtained payment for them from the plaintiffs' bankers. On an action being brought to recover the amount so received from the defendant it was held that in the circumstancesof the case it was impossible to come to the conclusion that the plaintiffs when drawing these cheques had used the names of their customers by way of pretence only, and consequently that the payees were not "fictitious" persons within the meaning of sect. 7 of the Bills of Exchange Actt, that the fraudulent indorsements by the clerk were no authoriy to the defendant to hold the cheques, and that the plaintiffs were entitled to judgment for the amount claimed.

Discounting Bills.

A banker, however, very frequently discounts bills, and if he does so he must, in order to secure payment in due course, fulfil all the duties which fall upon an ordinary individual. If he takes a bill from a person who has forged an indorsement he gets a worthless document. No title can be made through a forgery. But if he takes a bill from a person who himself took it with a forged indorsement upon it, the banker can demand repayment from his transferor, or from any person who has been a holder of the bill subsequent to the forgery and who has indorsed the bill, of the amount which he has paid for the bill.

It cannot be too carefully remembered that every holder of a bill of exchange is presumed to be a holder in due course, and that if value has been given for the bill *at any time*, it will be no defence to an action on the bill against any party, who was a party to it previous to its last transfer for value, that he received no consideration for it. But there is no right of action against an immediate transferor unless value is given. For example, if a bill is drawn and accepted for value, and then transferred through the hands of several persons, and at last handed as a gift to the holder, the holder can recover the amount for which the bill is drawn from any person whose signature appears upon it, except the person from whom he received it as a gift.

Consideration for Bill.

Valuable consideration for a bill is constituted by (*a*) any consideration sufficient to support a simple contract, (*b*) any antecedent debt or liability. It is thus possible to have a past consideration for a bill of exchange, a thing generally out of question by the ordinary law of contract.

Stamps.

The stamps which indicate the duty paid upon bills of exchange and without which no bill of exchange, cheque, or promissory note is valid, are fixed by various Acts of Parliament. They are as follows:

Bills payable on demand, or at sight, or on presentation, or not exceeding three days after date or sight (for any amount), or in all cases when the amount does not exceed £5 ..				..	1d.
When the amount exceeds	£5	and does not exceed	£10 ..	..	2d.
,, ,,	£10	,, ,,	£25 ..	..	3d.
,, ,,	£25	,, ,,	£50 ..	..	6d.
,, ,,	£50	,, ,,	£75 ..	..	9d.
,, ,,	£75	,, ,,	£100	..	1s.

When the amount exceeds £100, 1s. for the first £100 and an additional 1s. for every fractional part of £100.

The duty of 1d. was increased to 2d. by the Finance Act, 1918, as from the 1st September, 1918. If the bill is charged on the *ad valorem* basis, the stamp must be an impressed one, otherwise an adhesive one is legal. The penalty for non-compliance with the stamp requirements is £10.

A foreign bill, drawn and expressed to be payable abroad, which is negotiated in the United Kingdom, is stamped as an inland bill, except that when the amount is between £50 and £100, a 6d. stamp only is required, and when the amount exceeds £100, a 6d. stamp is required for each fractional part of £100.

There are two dangers still to which a banker, as well as any other person, may be exposed in dealing with bills of exchange if he occupies the position of a holder. The first is concerned with the issuing of the bill. A deed is of no effect at all until it is delivered, and in the same way a bill of exchange, although complete in form, may be of no value at all because it has never been delivered. Thus a bill may be drawn by a merchant and placed in his desk. If the bill is stolen by any dishonest person, and an acceptance forged, with possibly the addition of one or more indorsements, the person who takes it has no right of action against the drawer, whatever may be his remedies against any of the other parties, assuming that some of the indorsements turn out to be genuine. There has been no delivery of the bill, and until delivery there is no liability.

Issue of Bill.

The second danger is the possible alteration of the bill. By section 64 of the Act it is declared :

Alteration of Bill.

(1) " Where a bill or acceptance is materially altered without the assent of all parties liable on the bill, the bill is avoided except as against a party who has himself made, authorised, or assented to the alteration, and subsequent indorsers. Provided that, where a bill has been materially altered, but the alteration is not apparent, and the bill is in the hands of a holder in due course, such holder may avail himself of the bill as if it had not been altered, and may enforce payment of it according to its original tenor.

(2) " In particular the following alterations are material, namely, any alteration of the date, the sum payable, the time of payment, the place of payment, and where a bill has been accepted generally, the addition of a place of payment without the acceptor's assent."

Londesborough's Case.

This section was considered and applied in the case of *Scholfield v. Earl of Londesborough* (1896) where a bill originally drawn for £500, upon stamped paper sufficient to cover £3,500, was fraudulently changed from the former to the latter sum. There was no doubt that the bill was drawn negligently and with spaces left vacant so that the fraud was not difficult to carry out. But it was held that the acceptor of a bill of exchange owes no duty to the drawer of the same, or to any person taking the bill, other than to pay it on presentment, so that if the bill is accepted as presented, the acceptor is not liable, even though he has been negligent, to a holder for value of a bill fraudulently altered after acceptance. At first sight this decision appears to conflict with that of *Young v. Grote,* which has been noticed earlier in connection with the alteration of the amount of a cheque. But the distinction is clear. In the case of a bill of exchange there is no privity of contract except between immediate parties, so far as a duty to avoid negligence, etc., is concerned. In the case of a cheque there is a direct connection between the banker and his customer, and each is bound not to do anything to injure the interests of the other in any way. See the case of *London Joint Stock Bank v. Macmillan* (1918), which is referred to at p. 441.

Kinds of Acceptance.

Acceptance of a bill of exchange has already been explained. Acceptances may be either general or qualified. A general acceptance is one which assents without qualification to the order of the drawer. A qualified acceptance may be

(*a*) Conditional, that is, dependent upon a condition stated in the acceptance,

(*b*) Partial, that is, an acceptance to pay a part only of the amount for which the bill is drawn.

(*c*) Local, that is, an acceptance to pay at a particular place, and there only.

(*d*) Qualified as to time, when a bill drawn for three months is accepted for six.

(*e*) An acceptance by some and not by all of the drawees, when there are more than one.

The holder of a bill may refuse to take a qualified acceptance, and if he does not obtain an unqualified acceptance, may treat the bill as dishonoured for non-acceptance. It is the common practice to obtain the acceptance of the drawee as soon as possible. It generally facilitates the negotiation of the bill. When a banker takes a bill as holder in due course it is generally from the payee, who is often the drawer, direct. But when a bill is intended for circulation amongst the commercial community the addition of name after name by way of indorsements enhances the value of the instrument. In some cases the bill is not capable of containing all the names of the indorsers. A slip of paper is then attached to receive the further indorsements, and this slip is known as an " allonge."

Presentment.

When a banker becomes the holder of a bill of exchange in due course it is his duty to present the bill at the proper time and place for acceptance and payment. An acceptance may be given at any time before the bill becomes due. Presentment for payment must be made when the bill arrives at maturity, and although the Act allows presentment to be dispensed with in certain cases, it is always advisable to present it if possible. If a drawee refuses to accept a bill, or if, when he has accepted, he refuses to pay the same at maturity, the bill is said to be dishonoured. The holder must at once give notice of the dishonour to all parties to the bill whom he wishes to hold responsible for the default of the drawee. The notice is generally given in writing, and should be sent immediately. In the absence of special circumstances the following are the rules laid down as to the time for giving notice of dishonour:

Notice of Dishonour.

(*a*) Where the person giving and the person to receive notice reside in the same place, the notice must be given or sent off in time to reach the latter on the day after the dishonour of the bill.

(*b*) Where the person giving and the person to receive notice reside in different places, the notice must be sent off on the day after the dishonour of the bill, if there is a post at a convenient hour on that day, and if there is no such post on that day then by the next post thereafter.

Each person to whom notice of dishonour is given has the same time in which to give notice to any parties to the bill whom he desires to make responsible.

Parties Liable on Bill.

It should be noted that a person becomes a party to a bill by writing his name thereon. Therefore the drawer, the acceptor, and every indorser is a party to the bill and liable thereon. The acceptor is always the person who is primarily liable, and if he fails to meet the bill the holder can proceed against the drawer or any indorser whom he chooses to hold responsible provided that proper notices of dishonour have been given. So an indorser who pays the bill and receives it from the holder can in turn sue the drawer and any of the previous indorsers. It is for the purpose of keeping these remedies alive that the law lays such great stress upon the due observance of the rules as to notice of dishonour.

Acceptance for Honour.

If a bill is dishonoured by non-acceptance for any reason, the holder may take the acceptance of any person other than the drawee, who accepts for the honour of the drawer or any indorser. This is called an "acceptance for honour."

Discharge of Bill.

A bill of exchange is discharged and all rights of action upon it are extinguished in the most general way by the acceptor's paying the amount thereof according to the tenor of the instrument. But a discharge can be effected in other ways. The bill may, in the course of negotiation, get into the hands of the acceptor as a holder in due course. If this happens at the time when or after which payment is due, the bill is discharged. Again, the holder may, after payment is due, renounce his right of action against the acceptor, and if he does so either by delivery of the bill to the acceptor, by making a renunciation in writing, or by cancellation, the bill is discharged.

Accommodation Bills.

Many bills are drawn, accepted, and put into circulation without any consideration passing, the various signatories lending their names to oblige their friends. Such bills are called "accommodation bills," and the persons who draw, accept, or indorse them are called "accommodation parties." Until value has been given, no party is liable to pay the amount of the bill; but directly value has been given, a holder in due course has a right to proceed against any of the signatories, even though he knows that the bill is only an accommodation one.

Wagering Debt.

If a bill (including, of course, a promissory note and a cheque) is given for a wagering or a gaming debt, the winner cannot sue the loser upon it. But if the instrument is transferred for value to a third person, who is unaware of the fact that it is connected with a gaming transaction, such third person can enforce payment.

Lost Bill.

It is specially provided by sections 69 and 70 of the Act of 1882 in the case of lost bills that "where a bill has been lost before it is overdue, the person who was the holder of it may apply to the drawer to give him another bill of the same tenor, giving security to the drawer if required to indemnify him against all persons whatever in case the bill alleged to have been lost shall be found again. If the drawer on request as aforesaid refuses to give such duplicate bill, he may be compelled to do so. In any action or proceeding upon a bill, the court or a judge may order that the loss of the instrument shall not be set up, provided an indemnity be given to the satisfaction of the court or judge against the claims of any other person upon the instrument in question."

Foreign Bill.

Whatever has been said so far has had reference to inland bills. All other bills which do not fall within the definition of an inland bill given above are called foreign bills. A foreign bill generally consists of a set of three bills, identical in terms, except that each is expressed to be payable only on condition that neither of the other two has been paid. When it is necessary to post the bills they are transmitted separately, and the risk of losing the bill—for the three together constitute one bill, unless the drawer accepts more than one part—is greatly diminished. A common form of a foreign bill is the following :

London, Sept. 1st, 1905.

For 20,000 *francs.*

At twenty days after sight of this first of exchange (second and third unpaid) pay to the order of M. Adolph Lebrun twenty thousand francs, for value received, and place the same to account as advised.

To *Joseph Williams.*

M. Emil Blanc,
Marseilles."

The law which governs foreign bills of exchange is, in the main, the same as that applicable to inland bills. There are, however, three differences which ought to be noticed.

(1) It is a very common thing for a foreign bill to be drawn at one or more " usances." The term " usance " signifies customary time, that is, the time of payment as fixed by custom, having regard to the place where the bill is drawn and the place where it is payable. The true date of payment is calculated by adding the three days of grace to the usance.

(2) It is necessary for an inland bill to be written upon duly stamped paper whenever the duty exceeds one penny. There is no necessity to stamp a foreign bill before it is issued. It cannot, however, be negotiated within the United Kingdom until the stamp has been affixed.

(3) If a foreign bill is dishonoured the fact must be noted by a notary public. It is also necessary for a declaration in writing to be drawn up as to the dishonour.

Promissory Note.

A promissory note is defined by section 83 of the Act as an " unconditional promise in writing made by one person to another signed by the maker, engaging to pay on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer."

If an instrument is drawn in the form of a note payable to the order of the maker, it does not become a promissory note within the meaning of the above definition until it has been indorsed by the maker. It is to be observed that a promissory note is not invalid only by reason that it contains also a pledge of collateral security with an authority to sell or dispose of the same.

Just as a bill of exchange is invalid and does not bind the drawer until delivery has been made, so a promissory note is inchoate and incomplete until delivery has been made to the payee or to bearer.

The common form of a promissory note is as follows :

London, Sept. 1st, 1905.

£50.

Four months after date I promise to pay to Mr. Alfred James or order the sum of fifty pounds for value received.

Thomas Holden.

The note may be drawn for any time, or on demand, and may be made payable to bearer, instead of to order, like a bill of exchange or a cheque. It is transferable like any other negotiable instrument, and may be indorsed like a bill of exchange or a cheque. The maker is the person primarily liable upon the instrument. If he makes default each of the indorsers can be sued. But no indorser is liable upon the instrument until the note has been presented to the maker and payment has been refused by him. The stamp on a promissory note is the same as on a bill of exchange (see p. 154), except that the duty is always an *ad valorem* one.

A note in a form similar to that of the example given above may be signed by two or more persons, "we" taking the place of the word "I." According to the tenor of the document the parties may make themselves jointly or jointly and severally liable upon the note.

Presentment for payment must be made within a reasonable time, otherwise the indorsers will be exonerated from liability.

In addition to the principal business connected with cheques, bills of exchange, and promissory notes, bankers frequently undertake the custody of documents and valuable articles of property. Plate and jewels are often deposited, being generally enclosed in strong boxes and placed in specially constructed rooms at the bank. It is not usual for a banker to make any charge for taking care of the valuables of a customer, and he is then in the position of a gratuitous bailee, that is, he must take all ordinary care of the valuables and not run greater risks than he would do if the articles were his own. But if the banker charges a commission for keeping the goods he becomes a bailee for reward, and as such he is liable for negligence. The delivery of the goods to a person other than the owner who has

Goods, etc., Deposited with Bankers.

no authority to take them stands upon a different footing. This may amount to a wrongful conversion of the goods, for which the banker will be responsible, irrespective of any negligence. The documents usually deposited with a banker are title deeds, certificates of shares, bonds payable to bearer with coupons attached, etc. In the case of the last named it is a common practice for the banker to undertake to cut off the coupons as they become due, to present them for payment, and to credit the customer with the amount obtained. With respect to these documents the banker's position is that of trustee and agent for his customer. He obtains no title to them and cannot deal with them on his own account. With cheques and bills it is different. If a banker becomes the holder in due course of a cheque, or discounts a bill, his property in each is complete.

Lien.

To secure himself against any loss, a banker has, by the law merchant, in addition to or in lieu of any special security, a general lien upon all securities deposited in his hands by his customer, if it can be shown that such securities have come into his possession as a banker in order that he may perform some office in respect of them, which it is his duty as a banker to carry out. A lien is a right to retain and keep back a thing from the rightful owner until some liability has been extinguished. But a lien does not entitle the possessor to deal with the thing in a general way. In the case of a banker the lien does not extend to the articles of value mentioned in the last paragraph, deposited for safe custody at the bank, nor to such documents as Treasury bills which are placed in the hands of a banker so that interest may be received upon them, and that the bills themselves may be exchanged for new ones when due. These offices, although commonly performed by bankers, constitute no part of their ordinary duties.

Securities.

The right of lien is, however, far from sufficient security for a banker whose business must largely consist, if he is to carry on the business of banking profitably, in making advances to customers and others. Securities of various kinds are deposited in the shape of a pledge. If there is an actual transfer to the banker he obtains an absolute title, so that no question can arise unless there is something radically wrong with the securities themselves. But if the deposit is by way of pledge, the position of the banker will be seriously affected according as the securities are or are not negotiable instruments, and are bearer or order securities. The utmost care is necessary in dealing with such things as bonds which brokers are frequently in the habit of depositing with bankers as security for a loan. The position of a banker who takes such securities is not a safe one unless he receives the instruments in good faith and the instruments themselves are fully negotiable.

The whole position with respect to such securities was fully considered in two cases decided by the House of Lords in 1888 and 1892. The first was *Lord Sheffield v. London Joint Stock Bank, Limited.* The plaintiff gave certain certificates of railway stock with transfers thereof executed by him in blank to a person named Easton, and also a number of bonds of foreign companies (which were alleged to be negotiable securities), for the purpose of raising £26,000. Easton handed these securities to one Mozley, a moneylender, to secure £26,000 advanced by Mozley to Easton. Mozley then deposited the transfers and securties, together with other securities of his customers, with various banks, as security for large loan accounts running between him and them, the blanks in the transfers of stock being filled up with the names of the nominees of the banks. The banks in so dealing either actually knew, or had reason to believe, that the securities, did or might belong not to Mozley but to his customers. Mozley became bankrupt and the defendant bank sold some of the plaintiff's securities, and claimed to hold the proceeds and the unsold remainder as security for all the debt due to them from Mozley. It was held that though the bank had a legal title to the securities they were not purchasers for value without notice but ought to have inquired into the extent of Mozley's authority, and this whether the securities were negotiable or not; and that upon payment to the banks of the money advanced by Mozley to Easton, the plaintiff was entitled to the value of such of the securities as had been sold by the bank, and to redeem the remainder.

Examples.

The second case was that of *London Joint Stock Bank, Limited, v. Simmons.* There a broker in fraud of the owner pledged negotiable instruments together with other instruments belonging to other persons with a bank as a security *en bloc* for an advance. The bank did not know whether the instruments belonged to the broker or to other persons, or whether the broker had any authority to deal with them, and made no inquiries. The broker absconded and the bank realised the securities, a portion of which were the property of Simmons. It was held that as there had been no circumstances to create suspicion the bank was entitled to retain and to realise the securities, having taken negotiable instruments for value and in good faith.

For the benefit of the commercial community the number of fully negotiable instruments is being from time to time increased, but a banker must satisfy himself as to the nature of his pledge before he can feel that he is perfectly secured.

Shares in public companies are frequently deposited as security. They are not always of a satisfactory nature, unless the banker takes care to acquire the legal title to them. The mere deposit of the certificates gives him nothing more than an equitable title, and it may turn out that there has been some other dealing in the shares which may postpone the rights of the banker. For his own security he should have them transferred into his own name or into the name of a nominee. If the transfer of the shares is required, under the Articles of Association, to be by deed, it is not sufficient for the banker to take a blank transfer, as was commonly done until the decision of *Powell v. London and Provincial Bank* (1893), and then to fill in the name of the transferee when the occasion for doing so arises. It is not advisable to take shares which are not fully paid up, as the transferee is liable for the whole amount of the unpaid calls. Notice is given to the company that the bank holds an equitable charge and the company generally acknowledges the receipt of the notice.

Deposit of Shares.

A life insurance policy is a security upon which money is often advanced. The amount lent, however, should never exceed the surrender value fixed by the Insurance Company. The strictest inquiry is necessary in order to see whether the policy has been issued for the benefit of any other person than the one insured. There is, moreover, the ever-present danger that the insured may do something to invalidate the policy. A banker, therefore, who makes advances upon such a security should stipulate for the right to surrender the policy upon the failure of the insured to pay any of the premiums upon the policy, because it is very unlikely that if there is a single delinquency the insured will trouble to keep the banker indemnified.

Insurance Policies.

Amongst the many other kinds of securities deposited with a banker to cover an advance bills of lading, dock warrants, and delivery orders are exceedingly common examples. They are all documents which possess many of the qualities of negotiable instruments, although, strictly speaking, they are not such. A person who is the holder of any of these documents is *primâ facie* entitled to the goods named therein, and if the holder demands their delivery from the person who is in possession of the goods, such possessor cannot retain the goods if his charges, etc., are paid unless he has some special claim against any of the prior holders of the bill of lading, etc. When an advance is made upon the deposit of such securities, the bill of lading, etc., is indorsed to the banker, and he can realise his security if the loan is not repaid. The Factors Act, 1889, has been of peculiar value to bankers in this respect, for it has conferred upon them the right of pledging goods which they have in their possession, or of which they hold the documents of title, under certain conditions. Section 2 provides that where a mercantile agent (and this includes a banker) is with the consent of the owner in possession of goods, or of the documents of title to goods, any sale, pledge, or other disposition of the goods made by him when acting in the ordinary course of business of a mercantile agent shall, subject to the provisions of the Act, be as valid as if he were expressly authorised by the owner of the goods to make the same: provided that the person taking under the disposition acts in good faith and has not at the time of the disposition notice that the person making the disposition has no authority to make the same. By section 3 it is enacted that a pledge of the documents of title to goods shall be deemed to be a pledge of the goods.

Bills of Lading, etc.

Any documents accompanying bills of lading, etc., such as insurance policies or certificates of insurance, should be deposited with the securities; and it is always advisable that a note or memorandum should be taken when any kind of deposit is made.

Another form of security is a bill of sale. In taking such a security a banker needs to exercise much caution. At the best it is not a kind of security much in favour with the principal banks, unless there is something exceptional about the transaction. It is well known that a bill of sale may be

Bills of Sale.

granted, under the Bills of Sale Act, 1882, for so low a sum as £30. It would be very strange if a banker showed any inclination to make advances of small sums upon security which had to be obtained in this way. Much care, also, is required in dealing with bills of sale, and it would be unsafe to rely upon such documents as a sound security unless they have been carefully prepared and examined by a solicitor acting on behalf of the bank.

Equitable Mortgage.

When title deeds are deposited as a security for a loan, the question of the right to such deeds may arise in the event of the borrower being unable to repay the amount of his loan. The fullest investigation is therefore necessary before an advance is entertained. The deposit of title deeds with or without a memorandum of deposit constitutes an equitable mortgage. The property represented by the deeds may be freehold, leasehold, or copyhold. The absence of formality in taking a security of this kind commends itself with great force to bankers. If the deeds are retained by the bank, or if they are dealt with with proper precaution after having been deposited, the security is nearly as valuable as if a legal mortgage had been made. The remedies of an equitable mortgagee are not the same as those of a legal mortgagee, it is true, but upon an application being made to the court there is probably a right to obtain an order for sale of the lands as well as for foreclosure, which is the ordinary remedy when an equitable mortgagee wishes to realise his security. If a banker wishes to secure himself further, he should obtain an undertaking from the mortgagor to give a legal mortgage if required, and where this undertaking has been given a mortgagor will be compelled to fulfil his obligations. For several reasons, especially on account of the existence of what is known as "tacking," a banker should avoid the doubtful security of anything less than the first mortgage of property. Great care is required in estimating what is the extent of the loan which may be safely advanced upon the security of landed property. If there are buildings, deterioration must be allowed for. The question of insurance must also be considered. And if the property is leasehold, the length of the lease will be a most important factor in coming to a decision upon this point.

The last kind of security which need be noticed here is a guarantee.

A guarantee has been defined as a promise to answer for the debt of another, made to a person to whom that other already is, or is about to become, answerable. By the fourth section of the Statute of Frauds a guarantee must be in writing, or there must be a memorandum of it in writing, signed by the guarantor or by his duly authorised agent. As difficulties often arise upon the construction of the document a guarantee must be most carefully drawn. Unless it is under seal, that is, made by deed, there must be a consideration moving from the creditor, though it is not necessary, since the passing of the Mercantile Law Amendment Act, 1856, that the consideration should be set out in the document, provided it does really exist.

Guarantee.

The rights of a banker under a guarantee, when the original debtor fails to fulfil his obligations, will depend upon the wording of the instrument. If it is signed by one person only, that person alone is liable to reimburse the banker for what he has lost. If the guarantee is given by two or more persons, and it is made joint and several, a banker may proceed against any or all of the parties. He must, however, exercise great care in pressing his remedies. The questions he has to consider are of some nicety and complexity, but their consideration belongs to the general law of contracts and is too intricate to be studied here. Perhaps the most difficult point is to distinguish between a limited and a continuing guarantee. But if the instrument is properly framed this should not arouse controversy. It is for that reason that in taking securities of any kind and also guarantees, a banker should seek the advice of his solicitor, unless the matters are of the simplest character. His general liabilities and duties as to cheques, bills of exchange, and promissory notes are easily learned and must be accurately known at the banker's own peril; in dealing with other matters he cannot safely assume the knowledge and position of an expert unless he is such.

Joint and Several Guarantees.

CHAPTER IX

THE PRACTICE OF BANKING

THE present chapter is mainly concerned with the financial parts of the transactions which are carried on by a banker from the practical point of view. The legal position of a banker has been considered in the last chapter, and at the same time it was seen that a banker often undertakes matters of great importance, not exclusively financial, on behalf of his customers. These have, however, been sufficiently dealt with, and no further reference will be made to them.

Functions of a Banker.

It was at one time considered that the sole business of a banker consisted in taking care of the money of people who entrusted it to him, and in returning it, or its equivalent, whenever it was required. That idea has been long exploded. A banker is a dealer like any other man of business, and his stock in trade consists of money and credit. Money to some extent is always essential, but it is as a buyer and collector of other people's debts that the banker plays his most prominent part. When money is deposited in his bank he buys the same and creates credit. His customer, or the nominee of the customer, is entitled to reclaim the amount deposited under certain conditions. And when a cheque is paid into the bank by a customer, the banker buys the right of his customer and credits him with the amount of the cheque.

The principal financial business of a banker consists of three things, viz., the receipt of deposits, the discounting of bills and promissory notes, and the granting of loans.

Deposits.

There are always certain persons who are willing to place their money at the disposal of a banker, by way of deposit, when they will not part with it in the way of speculation. These deposits are really in the nature of investments, more or less permanent, and there is no idea on the part of the depositors of withdrawing the money at different times as is done by cheques upon current accounts. Accounts of this kind are known as deposit accounts. It is not at all necessary that a person should have a current account in order to place money on deposit. Banks advertise in certain quarters that money can be received upon certain terms and conditions. If the depositor wishes to withdraw his money he must give a certain notice to the bank. The length of the notice varies in different parts of the country, though the common rule is to require one of seven days. A banker may, of course, make special terms with the depositor, and in fact some deposits are received repayable on demand (see p. 87). For the use of the money interest is paid by the banker. The rate varies, in the case of some banks, with the length of notice of withdrawal, But in London, with the customary seven days' notice, it is usual to pay a rate which varies with the rate of discount of the Bank of England. The deposit rate is generally 1½ per cent. below the official minimum discount rate, except when the latter is very low, and then the difference is 1 per cent.

Deposit Receipt.

When a sum of money is deposited it is usual for a deposit receipt to be issued stating the terms upon which the money is received, and upon what notice it is repayable. The receipt is in the following form:

"*Not transferable.*

Repayable on 7 days' notice.

£1,000.

Received of William Evans the sum of one thousand pounds to be placed on deposit account.

For —— Bank,

R. Jones,

Manager.

Entered ——"

Withdrawal.

The production of the deposit receipt is necessary whenever repayment of the sum deposited is required or payment of the interest due upon it, and if it is not presented by the depositor himself it must be accompanied by his stamped cheque. For the purpose of identification a specimen of the depositor's signature should always be taken in the signature book. When a portion of the sum deposited is withdrawn, an indorsement is made on the back of the receipt stating the amount which has been repaid. Great care is required so that payment may not be made to any person other than the depositor, otherwise the banker may be called upon to pay a second time. If the deposit receipt is lost or mislaid, it is the duty of the depositor to give information to the bank at once. Deposit receipts are not transferable documents, but they have been held to be the subjects of valid *donationes mortis causâ*, even on the uncorroborated testimony of the donee, if indorsed by the depositor. When issued to two or more persons, care must be taken to carry out their instructions as to withdrawal. These should be indorsed on the receipt. The executor of a deceased joint depositor may give notice to the bank not to pay.

Large sums are left with banks on deposit accounts. In order that the banker may make a profit out of such transactions he must lend the money at a rate of interest considerably in excess of that which he pays to the depositor.

Current Accounts.

The other accounts opened at banks are current or running accounts. Irrespective of the question of the insufficiency of the amount of coined money in existence, it is impossible to conceive how business could be conducted without the convenience of current accounts at a bank. Multitudinous payments have to be made day by day, and of course there is the same amount of receipts as of payments. It is for these payments and receipts that banks are so essential to a commercial community.

Opening an Account.

It is a very rare thing for a banker to allow an account to be opened at his bank unless the customer is introduced by some person of respectability and standing. Quite apart from any consideration as to the desirability of some kind of introduction, it is for the benefit of the banker himself to know something of the position of his customer.

A prospective customer is required to enter his name in the signature book of the bank. This may be done even before the banker has inquired into the credentials of the customer. This signature is for purposes of reference in case of necessity. A banker is bound to know the signature of his customer. He must honour all cheques which bear that signature. But if the signature is forged and the banker fails to detect the forgery, it is the banker and not the customer who has to bear the loss. To avoid such loss the banker must always be on his guard. It would, for example, be unwise to pay a large cheque over the counter without comparing the signature of the drawer with that in the signature book, and it would be equally unwise to allow a large number of transactions to take place without some method of checking the same.

For the purpose of checking the accounts of a customer a pass book is delivered to him as soon as his account is opened. In this book are entered the amounts paid into and withdrawn from the bank. The entries are, in fact, copies of those contained in the ledger. They are, *primâ facie*, binding upon the banker, though he is not precluded from showing that such entries have been made by mistake, unless the customer has acted upon the faith of them. In the same way a customer may be bound by the entries, although erroneous, if he fails to discover them in due course. To avoid errors it is usual for the pass book to be made up at least once a month.

Pass Book.

In an old case the law and custom as to pass books was thus set forth : " A book called a passage book is opened by the bankers, and delivered by them to the customer, in which at the head of the first folio, and there only, the bankers, by the name of their firm, are described as the debtors, and the customer as the creditor in the account, and on the debtor side are entered all sums paid to or received by the bankers on account of the customer, and on the creditor side all sums paid by them to him or on his account. And the entries being summed up at the bottom of each page, the amount of each, or the balance between them, is carried over to the next folio, without further mention of the parties until, from the passage book being full, it becomes necessary to open and deliver out to the customer a new book of the same kind. For the purpose of having the passage book made up by the bankers from their own books of account, the customer returns it to them from time to time as he thinks fit, and the proper entries being made by them up to the day in which it is left for that purpose, they deliver it again to the customer, who thereupon examines it ; and if there appears any error or omission, brings or sends it back to be rectified ; or, if not, his silence is regarded as an admission that the entries contained in it are correct ; but no other settlement, statement, or delivery of accounts, or any other transaction which can be regarded as the closing of an old or opening of a new account, or as varying, renewing, or confirming (in respect of the persons of the parties mutually dealing) the credit given on either side, takes place in the ordinary course of business, unless when the name or firm of one of the parties is altered, and a new account thereupon opened in the new name or firm. The course of business is the same between such bankers and their customers resident at a distance from the metropolis, except that, to avoid the inconvenience of sending in and returning the passage book, accounts are from time to time made out by the bankers, and transmitted to the customer in the country when required by him, containing the same entries as are made in the passage book, but with the names of the parties, debtor and creditor, at the head, and with the balance struck at the foot of each account; on receipt of which accounts the customer, if there appears to be any error or omission, points out the same, by letter, to the bankers; but if not, his silence, after the receipt of the account is in like manner regarded as an admission of the truth of the account, and no other adjustment, statement, or allowance thereof usually takes place." When all payments are made by cheque, the customer will find it convenient to compare the entries in the pass book with his Cash Book, since they ought to agree entirely.

Cheque Book.

A cheque book is also supplied to the customer. Each bank has a distinctive cheque book, and it is desirable, from many points of view, that a customer should not make use of any other means than the usual form of cheque for withdrawing money from his bank. It has been pointed out what difficulties may arise from such a practice, and it is unnecessary to make further reference to it in this place.

But it is well known that a very small portion of the receipts of a banker take the form of cash. The majority of payments in consists of cheques or other forms of orders. If the cheques are drawn upon his own bank, a few figures in the ledger, debiting one customer and crediting another, will accomplish the whole work of transference from one person to another. If the cheques are drawn upon other banks, the banker, by the very fact of his being such, undertakes to collect the proceeds of the cheques, and to credit the amounts to his customers. The work of collection is now reduced to a minimum, owing to the existence of Clearing Houses. These, however, are of such importance that a special chapter has been devoted to their consideration in the present volume. If the order for payments are other than cheques, *e.g.*, dividend warrants, it is the duty of the banker to collect the amounts through the proper channels, and in respect of such matters he is the agent for his customer, and must use all due diligence in his work.

Stopping Payment.

The banker must honour the cheques of his customer so long as the customer has a sufficient balance to meet them, or so long as any agreed overdraft limit has not been exceeded. But a customer may always countermand payment of a cheque which he has given. In order to do so he must give notice in writing to his banker describing fully the cheque, the payee, etc. If a cheque is stopped, or if there are not sufficient funds to meet it, the letters R/D or N/S—"refer to drawer" or "not sufficient"—are generally written in the top left hand corner. This is the case when a cheque is crossed and it is presented through the Clearing House in the ordinary way of business. A banker receiving back such a cheque will debit his customer with the amount, if he has already credited him with the sum, and seek instructions from his customer. If the cheque is an open one and presented at the bank for payment across the counter, such payment will be refused in either of the above cases. There is then no necessity to write any letters or words upon the cheque itself. It is not in accordance with the accepted and acknowledged duty of a banker that any explanation should be given to the payee of a cheque. It is sufficient to state that payment has been stopped, or that there are no funds to meet it. The payee is not entitled to ask any questions as to the state of the drawer's account.

Paying-in Book.

Most banks supply paying-in books to their customers. These consist of slips, with counterfoils, upon which are entered the amounts paid into the bank on any particular occasion, and the manner in which the amounts are made up, viz., coin, notes, cheques, etc. The slips are kept by the bank, and the counterfoils are retained by the customer. They are useful for reference when an examination of the pass book is made.

Banking accounts opened by various classes of people have most points in common, but it is necessary to call attention to a few peculiar features which exist in special cases. The case of a minor was referred to in the last chapter, and it was pointed out that a banker runs some risk in allowing an infant to open an account. Before the passing of the Married Women's Property Act, 1882, there was always difficulty to be apprehended when a married woman opened an account in her own name. Now, however, it is otherwise, and a married woman has a perfect title to whatever funds stand in her own name at a bank.

Bank Accounts.

No account can be legally opened with a lunatic, since there can be no contractual relationship with a person who is not of sound mind. But if a customer becomes lunatic after an account has been opened by him, it is necessary for his committee, that is, the person charged with the care of the lunatic's estate, to inform the banker of the fact of the lunacy, and afterwards all cheques which are drawn upon the account must be signed by the committee. Until the banker has been made acquainted with the legal authority of the committee he will not, generally, allow any operations upon the balance of the lunatic unless adequate security or a proper guarantee is given. But a banker must not act upon a mere suspicion of lunacy, and he has no legal right to refuse to honour the cheques of the lunatic in the absence of a notice of the lunacy.

Lunatic Customer.

If a customer wishes to allow any person to draw cheques in his behalf, it is usual for him to sign a request to that effect and if he wishes this person to borrow money or to accept bills, the request should state the exact powers of the agent. The authority of the agent continues in force until it is revoked by the customer in writing, or by the death, bankruptcy, or lunacy of the customer. It may be noticed that although an infant cannot contract so as to bind himself, he can always act as an agent.

Agents.

The bank requires a specimen signature of the agent, and it will not act except under that signature, for an agent cannot delegate his authority. The agent generally signs per procuration in the following manner :

p.p. Evan Jones,
Wm. Smith.

If the agent is permitted to sign the name of a firm, a specimen of his signature is required in the same manner.

It is very necessary for a banker to examine the nature of the authority of an agent, for if the agent's powers are limited the banker cannot hold the customer responsible for acts done by the agent in excess of his authority. The widest powers are conferred when a power of attorney is given by a customer. This generally happens when a customer goes abroad, and the entire management of his affairs is left in the hands of an agent.

Series of Accounts.

A customer who is largely engaged in business, or who has more than one business of his own, sometimes wishes to have a series of accounts. This is for his own convenience. When any payments in are made by the customer, he must name the particular account which is to be credited. In the absence of any such indication the banker is entitled to credit whichever account he pleases. In the same way any cheque drawn must indicate which of the accounts is to be debited. But, however numerous the accounts, the banker can treat the whole as one when estimating the liability of the customer to the bank, unless one of such accounts happens to be a trust account and the banker is fully cognisant of the fact. Of course, this consolidation only refers to accounts in the name of the customer and in his own behalf. For example, the two separate accounts of a person who is a member of a partnership firm and of the firm cannot be consolidated in this manner.

Partnership Accounts.

In dealing with a partnership firm the banker should make himself fully acquainted with all the arrangements as to banking which have been made by the individual members of the firm. This is more in the interest of the firm than of the banker, for a firm is always responsible for any act done in the ordinary course of business by any one of its members, each being, in fact, an agent for the firm. Thus, in the case of a trading firm any member would be acting within the scope of his authority, as far as the outside world is concerned, in accepting or indorsing bills of exchange in the name of the firm, and the firm would be liable to meet the same no matter what the private arrangements of the members themselves might be. Bearing these things in mind it is essential that the banker should be informed fully as to the members who are entitled and empowered to draw cheques in the firm's name, and these cheques are the only ones he must honour. Each individual member of a firm is liable for the debts and obligations of the firm, and this applies even to a person who has held himself out as a partner even though in reality he is not such.

If proper precautions are taken it is very unlikely that any serious difficulty can arise as regards the payment of cheques drawn upon the bank, but it is not always easy for a banker to decide what course to adopt when the firm requires an advance. Much delicacy and tact are necessary. The banker must satisfy himself that what is to be done by him is within the scope of the firm's business. In that case each individual member of the firm is bound by the act of any of the partners. But if the banker goes outside these limits he cannot hold the firm responsible and he must bear any loss occasioned.

When a firm ceases to exist in any manner, or when there is a change in its constitution, it is desirable for the bank to close the old account, and to open a fresh one if the business is to be continued. This is the proper course for the banker to adopt in order that he may retain a lien on a retiring partner's estate for debts contracted during the period of his partnership. And if new partners are introduced the banker must see that the liabilities of the firm are accepted by such persons.

There is less difficulty with the accounts of limited liability companies than with those of private partnerships. In opening an account with a company it is the duty of the banker to inspect the Memorandum and the Articles of Association and also to see that a Certificate of Incorporation has been granted. The last-named document shows that the company is entitled to commence business, and the two former state the scope and nature of the business of the company and the manner in which it is to be conducted. As it is possible for any person to inspect the Memorandum and the Articles, no plea of ignorance of the powers of a company will be entertained for a moment. Provision is always made in the Articles as to financial matters, and it is settled who are the persons authorised to draw cheques. This authority is generally given to two of the directors and the secretary of the company. The banker must not act upon any other authority than that of the duly appointed

Companies' Accounts.

officials, or the assets of the company will not be liable for debts contracted in this manner.

When a company ceases to transact business it is wound up, and a liquidator is appointed to bring its affairs to an end. The assets and liabilities are taken over by him and dealt with according to the powers vested in him. Upon notice being given to the banker of the fact of his appointment, the liquidator is the person who alone can operate upon the funds of the company lying at the bank.

Friendly and Building Societies.

The accounts of friendly and building societies are required to be kept in strict conformity with certain rules which must have been registered with the Registrar of Friendly Societies. A banker should, therefore, obtain a copy of these rules when opening an account with the societies in order that he may know the methods of deposit and withdrawal of money.

Corporations.

The limited powers of corporations to contract render it necessary that when a banking account is opened the appointment of the banker shall be made by a resolution under seal. Unless specially authorised by their peculiar constitution corporations have no power to make or indorse bills of exchange. The resolution will state the manner in which cheques are to be drawn. Arrangements of a similar and special kind have to be made when accounts are opened with any particular corporate body.

Joint Accounts.

Two or more persons, not partners in business, sometimes join in an account. Full instructions must be given to the banker how this account is to be operated upon, otherwise a cheque drawn upon it would have to be signed by the whole of them. The benefit of such an account devolves upon the survivor or survivors of the parties. If the survivor or survivors have not had any authority to draw cheques during the lifetime of the other persons who were joint owners, the banker will require proof of the death of any of the parties who were formerly entitled and also of the identification of the persons who present themselves as survivors.

Every prudent banker avoids, as far as possible, the opening of an account in the names of trustees, as trustees; because if he is aware of the existence of a trust he is saddled with more or less responsibility, as to the dealing with the trust funds in his hands, though he is in no way responsible for the application of these funds when withdrawn from his control. If, however, such an account is opened the banker should insist upon all cheques being signed by the whole of the trustees. Upon the death of any of the trustees he must be furnished with proof of the same before the surviving trustee can operate upon the funds lying at the bank. It is always better for a joint account to be opened by trustees, without any mention being made of the trust, instead of a trust account. It is easier in practice, and it affords greater protection to the banker.

Trust Accounts.

Upon the death of a customer, and as soon as notice has been given to the bank, no money deposited in the name of the customer can be withdrawn until probate of the will of the deceased, or letters of administration in case of intestacy, have been produced to the banker. The account is then transferred into the name of the executor or administrator, and he is enabled to draw cheques in the same manner as the deceased customer. If there is more than one executor or administrator special instructions should be given to the banker as to the account, because in the absence of any orders to the contrary the signature of one executor is sufficient to justify the payment of a cheque drawn upon the executor account.

Executors' Account.

This matter of accounts has been treated at some length because the banker who pays money under an order which is not properly drawn may be responsible to his customer for the same. If, however, cheques are regularly drawn, and the instructions given at the opening of the account are duly carried out, the banker is freed from all liability for losses which arise.

The payment of cheques and the legal position of the banker in respect of such payment have been already fully explained in the last chapter.

It is not the usual custom for London banks to allow any interest upon current accounts. The customer is sufficiently accommodated by the safe custody of his money and by the payments made through the banker to his order. There are, however, exceptions, and some banks allow interest

Interest on Current Accounts.

if the total amount deposited does not fall below a certain minimum during any specified period. Again, other banks charge a commission for keeping accounts unless the customer's balance exceeds a specified amount. In the country the practice of different banks varies. Some follow the London banks, whilst others charge commission upon the amount of work done, and allow interest upon the daily balance. There is, however, no uniform practice and the terms upon which accounts are kept must be obtained from each bank.

Profits.

It will be obvious that a banker does not derive much of his profits from transactions connected with current accounts. The necessity of retaining sufficient funds to meet the daily wants of his customers will not permit of his using too large a portion of the money placed at his disposal. Still, experience shows him that there is no necessity to keep the whole of the money idle in his coffers. What portion he can safely lend or invest must depend upon circumstances, and nothing but practical experience will teach this. But provided that there is always a reasonable amount of the bank's money invested in securities which are readily convertible and that sufficient cash is kept on hand, either in the shape of coin or money at call, to supply the ordinary requirements of customers, the banker may safely employ the remainder of his money, capital and deposits, in any of those ways which are his legitimate right. It is from these latter sources that almost the whole of the profits of a bank are derived, and, as was pointed out before, the chief of these are the discounting of bills and the granting of loans.

Bill Discounting.

It is with respect to bill discounting that the exact position of a banker is made clear. It is sometimes said that in discounting a bill a banker makes a loan to his customer. This is not so. He buys the rights of his customer, as evidenced by a certain document. As Macleod says, "If the banker merely made a loan to his customer on the security of the bill, it would be the customer's duty to repay the money at the time fixed, just as in all other loans it is the duty of the person receiving the money to repay it. But when a banker discounts a bill it is wholly different. He does not seek repayment of the money from his own customer, but he demands payment of the debt from the acceptor of the bill, and if it is duly paid, his customer never hears of or sees the bill again. It is only in the event of the non-payment of the bill by the acceptor that he comes back upon his own customer. If he made a loan to his customer on the security of the bill, he would give the bill back to his customer when he was repaid; but he never does so when it is duly paid. In such a case the property in the bill would remain with the customer, and pass to his assignees in the event of his bankruptcy; whereas it does not do so; it is the property of the banker, and the assignees of the customer have no right to it."

It is the usual custom for commercial firms to conduct their business upon the credit system, and instead of paying cash for goods to give bills payable at various dates. A tradesman who has received such a bill, say at three months, goes to his banker and offers it to him for sale. If the banker is satisfied as to the stability of the drawer and the acceptor (and the indorsers, if there are any) he will take the bill and credit the amount of it to his customer, less the sum charged for discount. The rate of discount will, of course, vary according to circumstances. The banker then becomes the holder in due course, and he can sue upon the instrument at maturity if it is not met. He can also in the meantime, if he so wishes, re-discount the bill with any other person. As an additional security he will have taken care to secure the indorsement of his customer who thus becomes a surety for the due payment of the bill. The banker must, however, take care to present the bill for payment in due course, and he must give immediate notice of dishonour if the bill is not met, so that he may charge the parties to it other than the acceptor.

Trade Bills.

Bills of exchange form an excellent investment for the surplus funds of a bank. In many cases they are not discounted for the full period of their currency, but are paid into a bank when a tradesman is in immediate need of money, or just before they fall due for the purposes of collection. Short bills are bills received for collection and not for discount. The name "short" does not refer to the currency of the bill, but to the entering "short." When bills are paid into a bank for the purpose of collection just before they become due, it is the custom of bankers to "enter them short," that is, not to credit them at once to the customer, but to wait until they are paid.

Short Bills.

Short bills are not within the order and disposition of a banker if the banker becomes bankrupt. The property in them remains in the customer subject to the banker's lien. They are in this respect distinct from other bills of exchange, which pass to the banker's trustee in bankruptcy.

It is further to be remarked that there is no general inclination on the part of English bankers to discount bills which have more than six months to run.

Accommodation Bills.

It is most essential for a banker to be on his guard with respect to bill transactions, so as to save himself as far as possible from the chance of loss. If the bills which he discounts are genuine trade bills he will rarely have any difficulty. Tradesmen are fully alive to the fact that their own credit largely depends upon the punctuality with which they meet their obligations, especially those in connection with bills. But if the bills discounted are simply accommodation bills, that is, bills drawn, accepted, and indorsed without any value having been given, the banker is in serious danger of failing to recover the money which he has paid for them. On this account the closest inquiry is always most advisable. It is the custom for bankers to keep an accurate record of all their bill transactions, and of particulars as to all the persons who are parties to the bills. This forms an admirable kind of reference when negotiations as to bills are frequent.

Foreign Bills.

The chief points of difference between English and foreign bills of exchange have been pointed out, and although there are many of the latter upon the market, an English banker does not, as a rule, care to deal with or to discount bills which are payable abroad. This branch of business is generally and most usefully left in the hands of bill brokers and foreign bankers.

Promissory Notes.

Similar considerations to those which hold in discounting bills of exchange are of importance in discounting promissory notes. The advance of money upon a customer's own promissory note very nearly approaches a loan transaction. If a banker is not perfectly satisfied with the security offered by the signature of the customer alone, he will ask his customer to get one or more friends to join him in making the promissory note. A joint and several promissory note is the result, and each of the parties to it is responsible to the banker for the whole amount of the note when it becomes payable. But a banker generally requires some collateral security for the due repayment of a promissory note.

The other great source of profit to a banker in the course of his business is the granting of loans. It has been said that caution is necessary in discounting bills, and a banker must have a keen business sense and an intimate knowledge of men to enable him to conduct such operations with probable success. In loan transactions all the best business qualities of a banker are most fully brought into play. It does not require a genius to form a competent opinion as to the amount of money that may be safely lent when valuable securities are deposited to cover the same. On this part of the subject a few words will be added later. But a banker is often called upon to make advances without security, and without much time for consideration. It is then that his general practical knowledge is of value. He must judge of men and of the conditions of trade and finance with rapidity and clearness, for it will often happen that the real success of his business depends upon the decision of a moment.

Loan Transactions.

Borrowers are either private individuals or a combination of persons. It is not safe policy to lend money without security to a private individual who is not engaged in trade. No prudent banker would ever think of discounting a bill for such a customer without most careful enquiry, as it would most likely turn out to be an accommodation bill; and without some clear and definite information as to the resources of the individual—as to investments or otherwise—an advance is always accompanied with risk. A banker may, of course, be able to gain considerable knowledge from the nature of the customer's account, especially if the account has been of long standing. But even this may be deceptive. Different considerations will arise if the customer is in trade. Sudden pressure may cause difficulties, and a banker may usefully employ his own information and act upon it. If a loan is required by a body of persons, provided they are a commercial firm, a banker will be influenced by the standing of those who are members of the firm. As every partner is *primâ facie* liable for the debts of the firm contracted in the ordinary way of business, the security of a few men of financial ability is sufficient justification for a loan without anything further. For reasons

Classes of Borrowers.

already stated, caution is extremely necessary when the borrower is a corporation or other body which may be under disability. For instance, a limited liability company might wish to borrow money. A prudent banker would not dream of advancing any sum, however small, without being made fully accquainted with the powers of borrowing possessed by such a body.

Caution as to Loans.

Even when securities are deposited with a banker for a loan, it is unwise to advance money in large sums to two or three firms or individuals. There cannot be a more unsound policy adopted than that of trusting to the stability of a few people. A sudden collapse may lead to far-reaching disaster, unless the banker is enabled to realise the securities which have been deposited immediately. Also a banker should avoid making advances which are likely to be of a more or less permanent character. It is his duty to recollect that he is always liable to meet so many obligations upon demand that the locking up of his capital may result in a stoppage of payment. It has been well said that "the province of a banker is to tide over temporary lack of ready money, not to provide capital, on which the customer carries on his business."

Overdraft and Loan.

If a banker is satisfied with the position of his customer, if he has inquired with prudence into his financial condition and the particular object for which the loan is required, he may feel himself justified in making an advance. This is done either by means of an overdraft upon a current account, or by way of loan. If the former method is adopted the customer is allowed to draw upon the banker up to the sum agreed upon, and the banker charges interest upon the amount overdrawn, the interest being calculated and made payable according to agreement. If the advance is made by way of loan the whole amount agreed to be lent is placed at once to the credit of the customer on his current account. Interest is charged upon the loan itself. The rate charged in the latter case is generally less than in the former. As an extra caution a banker should always reserve the right of recalling the money thus lent at short notice, especially if the advance is made without security. This will tend to minimise a probable loss when it is understood that a customer is in financial difficulties. But it must be recollected that when an overdraft or a loan has been agreed to, a banker cannot dishonour his customer's cheques without reasonable notice. It is obvious that a banker will have to make much more stringent inquiries when the overdraft is in favour of a man in business than when made to a private individual.

Nature of Securities.

Very few remarks are necessary in this chapter as to the nature of the securities which a banker should accept in practice. His chief care is to see that the securities can be readily turned into money if the occasion arises. Bearing in mind the cautions suggested in the last chapter a banker will be well advised not to accept any security with which he has not had previous practical experience without taking the advice of a solicitor, especially when loans are granted on deeds, upon the same. In any case a strict examination of the documents deposited is most essential, for whatever conditions are attached may be of the utmost importance in estimating the value of the securities.

Letter of Charge.

In the course of an extensive business a banker may acquire possession of various documents belonging to his customer, but as the right of lien does not extend beyond those things which come into the possession of the banker as banker, a customer will sometimes give his banker a letter of charge as security for an advance or overdraft. The following is a common form of a letter of charge :

"*In consideration of your advancing to me five hundred pounds I hereby deposit with you £700 Russian 4 per cent. bonds as collateral security for the due repayment of the said loan and interest at the rate of 4 per cent. per annum, or at such rate of interest as may be hereafter agreed upon : the present market value of the said securities is £630. This value during the continuance of the loan I engage to maintain, and if the market price of the said securities declines, I hereby agree to deposit other approved securities, or to pay off a proportionate amount of the said loan before its maturity should you consider it necessary.*

"*Unless I am able to fulfil these conditions I hereby authorise you to realise at any time the said securities or any part thereof, and in the event of the loan not being repaid when due, I authorise you to deal with the securities as you think desirable, so as to repay the said loan or any part thereof with interest and expenses.*

"*These securities are to cover any other sum or sums of money for which I may at any time either alone or jointly with any other person or persons be indebted or liable to you while the securities or any part thereof remain with you.*"

The customer signs this letter of charge which must be impressed with a 6d. stamp, or he can sign his name over an adhesive stamp of the same value.

Reference has been made to guarantees as a form of security for an advance or overdraft made by a banker. The following is a common form of a continuing guarantee:

Guarantee.

"*In consideration of your continuing the account opened with you by Evan Jones (herein called the said customer) and now overdrawn, and as a security to you in respect thereof I, the undersigned, William Brown, hereby undertake to agree to pay to you within 7 days after demand the balance which on the account current of the said customer with you shall for the time being be due or owing from the said customer or his representatives for moneys so overdrawn for bills and notes discounted and paid and for other loans, credits, and advances at any time hereafter made to or for accommodation or at the request of the said customer, and for any moneys for which he may become liable alone or jointly with any other person or persons to you on any account whatsoever, and for interest, commission, and other usual Bankers' Charges: provided always that this guarantee is not to extend my liability beyond the sum of Five hundred Pounds with costs, charges, and interest at 5 per cent. per annum from the date of demand, but the same shall be a continuing guarantee and shall bind my representatives, and I further agree that if you shall at any time receive any dividend or dividends or composition from the said customer or his estate on a debt then owing from him to you or from any person or persons jointly liable with the said customer or liable as a surety for him or his or their estate, such dividend or dividends or composition shall not be applied rateably to the said debt but shall be taken as a payment in gross on account of such debt, and you shall be entitled to recover the remainder of the said debt on this guarantee to the full extent of the sum of Five hundred Pounds with costs, charges, and interest at 5 per cent. per annum from date of demand.*

"And that this guarantee to the same extent shall be considered as additional to any other security you may be entitled to and upon the realisation of which any part of the debt of the said customer may be paid, and that you may at any time compound with the said customer for the whole or any portion of his liabilities to you with any person or persons jointly liable with the said customer or liable as surety for him.

"And I further agree that for all moneys to which this guarantee extends I am to be considered as the principal debtor, and that no release of or other arrangements with the said customer or any other person or any act or omission on your part or any other matter or thing shall operate to release or exonerate me or my estate or affect my liability under this guarantee.

"And this guarantee is intended to be a security for the balance for the time being to the extent of Five hundred Pounds, with costs, charges, and interest at five per cent."

The document is signed by the guarantor, and as being in the nature of an agreement it requires a 6d. stamp.

Liquid Assets.

It is found in practice that an ordinary banker may safely utilise from 50 to 60 per cent. of his capital and deposits in bill discounting and making loans. This will only happen, of course, in times of normal trade. It is also found that about 15 to 20 per cent. of the deposits should suffice to meet the cash requirements of the customers. This amount will consist of cash in hand, cash at the Bank of England—as each banker who is a member of the Clearing House must have an account there—and money lent at call and short notice. These are called liquid assets, because they are instantly realisable. The rest of the money for which a banker has created obligations binding upon himself is invested in Government and other first-class securities and the interest derivable therefrom goes to swell the profits of the bank. These can always be easily disposed of, so that if by any untoward circumstances a banker does find himself suddenly called upon to meet an extraordinary demand for ready money, he is able to provide himself with cash and to meet the most pressing of his customers at once. How far the conversion of securities into cash must go will depend upon circumstances.

On account of the nature of his obligations, it is essential that a banker should exercise the utmost caution in all his dealings. He must never forget that he has, in the course of his business, laid himself under the necessity of providing gold on demand for his customers, and his failure to fulfil his obligation, on any occasion would spread distrust and probably entail ruin on large numbers of people. In his operations, therefore, he must bear in mind that it is of paramount importance that he should always keep in hand, or possess in some easily convertible form, a sufficient supply of gold to meet his average requirements, and take care that his best investments are such that he can meet, if necessary, the whole of his obligations in the last necessity. Secure in this respect he has then a greater scope for the use of the remainder of his capital and deposits, and can the more calmly bear any small losses which must fall upon him in spite of every care and caution.

Reserve.

CHAPTER X

THE CLEARING SYSTEM

In the early stages of banking it was necessary for a person who had to receive payment of money to present his authority for the same to the bank upon which the order was drawn. There was no need that he should go personally—an agent might be sent in his stead. Little by little the main work of collection got into the hands of bankers, and day by day each banker sent out one or more clerks to collect on behalf of his customers the sums due to them from his fellow bankers. As banking and commerce increased the sums to be collected in this manner grew larger and larger, and the transactions multiplied at a great rate.

Origin of the Clearing System.

It is obvious that there must always have been many mutual obligations between banks. Thus, the A bank might have fifty or a hundred cheques and bills drawn on the B bank, and the B bank would probably have a considerable number drawn upon the A bank. In the primitive method of dealing with them a clerk from each bank would present the cheques and bills at the other bank and receive payment in notes and gold. This necessitated the use of a large sum of money. At last it occurred to one of the clerks of Messrs. Fuller's Bank, a man of the name of Irving, that the whole work might be accomplished just as well if the clerks met at some fixed place and exchanged the obligations of the bankers, the differences alone being paid in money. Although it is now very clearly seen that such a method saved time and allowed of large transactions being conducted with the use of very little money, it was not received at first with anything like favour by the majority of bankers. However a few clerks began to meet daily in 1775, at a room in Change Alley, and there they exchanged cheques and money. These meetings were quite voluntary and informal. But the advantages of the scheme were gradually perceived, and bankers were anxious to join what began to be known as the Clearing House. It was not always easy for them to do so, as the body of bankers who composed it became a somewhat exclusive body, and absolutely refused admission to the early joint stock banks.

By 1805 the room in Change Alley was not spacious enough for the business that had to be transacted, and a room in Lombard

Street was hired. Nine years later a further removal was necessary, and now, as is well known, the London Clearing House is situated in Post Office Court, Lombard Street. In 1810 there were forty-six bankers who cleared through the House. In 1854 the joint stock banks were admitted, and the Bank of England joined in 1864.

Growth of the Clearing House.

Until 1854 the mutual obligations of bankers were settled by the payment of the differences between the various members of the House in money or in Bank of England notes. But in the year named a great saving was effected by each member being bound to have an account at the Bank of England. The payment of differences in money became a thing of the past. Each clearing banker drew a cheque at the end of the day upon the Bank of England in favour of any clearing banker to whom he was indebted as a result of the day's clearing, and nothing further was required in the way of settlement than a transfer in the Bank's ledger.

Bank of England Account.

The operations of the Clearing House were confined to London banks until 1858. Cheques drawn upon country banks were forwarded by post to the various bankers, and drafts on London clearing banks were sent in return. Now, however, and for nearly half a century, country cheques, except certain local ones, are passed through the Clearing House by means of the London agents of the country bankers.

Country Clearing.

If any banker is not a member of the Clearing House the old cumbersome method of sending round clerks is still necessary, and money has to be transmitted from one bank to another just as it had to be before the clearing bankers had accounts at the Bank of England. When a bank has a city agent the usual method is to pay by means of a draft which is passed through the Clearing House.

The advantages of the clearing system have been shown by taking the case of two banks as an illustration. But the advantages are multiplied enormously when the number of banks having mutual dealings is considered. For example, take the case of four banks having cheques drawn upon one another, and call them the A, B, C, and D banks. Any number might be chosen, the more the better to emphasise the utility of the system, but four will be sufficient for the present purpose. The system works as follows when there are mutual accounts :

Advantages of Clearing.

Account of A Bank.

Cheques upon B.	Cheques upon C.	Cheques upon D.
£100	£200	£20
50	20	100
200	60	10
40	90	5
£390	£370	£135

Account of B Bank.

Cheques upon A.	Cheques upon C.	Cheques upon D
£50	£40	£80
20	70	50
90	10	70
10	5	5
£170	£125	£205

Account of C Bank.

Cheques upon A.	Cheques upon B.	Cheques upon D.
£50	£40	£100
20	90	5
100	70	20
5	10	10
£175	£210	£135

Account of D Bank.

Cheques upon A.	Cheques upon B.	Cheques upon C.
£50	£20	£40
40	30	70
10	90	200
100		
£200	£140	£310

The account of A is adjusted as follows :

	Dr.	Cr.
B Bank	£170	390
C „	175	370
D „	200	135
	£545	£895

A has to receive £895 and pay £545, therefore the account is adjusted by means of a transfer of £350 to A's account at the Bank of England.

How this transfer is effected will now be explained. The accounts of the B, C, and D banks are liquidated in a manner similar to that of the A bank.

For the sake of simplicity of explanation the case of cheques will alone be considered. It will be recollected that if a cheque is open, a banker must pay the amount of it to any person who presents it in the ordinary course of business, if he has sufficient assets to meet it, and if there are no suspicious circumstances which ought to put him on his guard. But the number of open cheques is insignificant compared with the number of crossed ones. And a crossed cheque cannot be paid except through a banker, that is, the banker must be the person to present it to the paying bank. And it will be remembered that if a customer pays an open cheque drawn upon another bank into his own bank, the bankers is permitted by statute to cross it either generally or specially, making it payable through any banker or through a particular banker. It is, therefore, mainly with crossed cheques that the Clearing House has to deal. Hundreds and thousands of these are paid into the various banks day by day, and each banker has to collect the proceeds for his customers.

Crossed Cheques.

Early each morning the cheques which a banker holds on the other clearing banks are sorted into separate parcels. In the case of country cheques separate parcels are made of them for presentation to the banker who acts as agent for the country banker. The parcels are despatched by a clerk to the Clearing House so as to arrive before 10 a.m., for what is known as the first or metropolitan clearing. The clerk

Business of the Clearing House.

delivers to each of the other clerks the cheques he has against his house, and receives from each clerk the cheques due from his own. Entries are made by the clerks of the Clearing House and the amounts added by Burrough's automatic adding machine. After the interchange each clerk returns to his own bank where an examination of the cheques is made to see that everything is in order. Each bank is allowed until 5 p.m. to decide whether the cheques drawn upon it will be honoured, the responsibility for honouring or dishonouring resting with the banker, who will be influenced by the circumstances noticed in the last two chapters. If no cheque is returned by that hour the banker is liable to the Clearing House upon it. This only applies, of course, to London cheques. If the banker is the clearing agent for a country banker, any cheque drawn upon the country bank is despatched by the night's post to that bank, and the country banker must send notice to his London agent by the following day's post if the cheque is to be dishonoured.

Four Clearings.

There are four clearings in London each day. The first has been noticed, and is known as the metropolitan clearing. It consists of cheques drawn upon the branches of clearing banks situated within a large area of the metropolis. The second, which starts at 10.30 a.m., consists mainly of cheques drawn upon the clearing banks which have been received since the closing of the Clearing House on the previous day. The third clearing is at noon. It is a country clearing, that is, the cheques are country cheques drawn upon country banks. These are sorted according to the clearing agents of the country bankers, and after a general interchange has been made, the agent again sorts the parcel which has been brought back to him and despatches the different cheques to the country bankers upon whom they have been drawn. The fourth or town clearing is at 2.30 p.m., and is concerned with cheques which have been drawn upon bankers who are members of the Clearing House and which have been paid in to the banks of other members during the day, and also with cheques which have been remitted from suburban and branch banks in the course of the morning. This last clearing is the busiest of all and continues until five minutes past four.

When the accounts have been verified and the amounts due to and from the various individual banks have been ascertained, as shown on a previous page, a sheet, called a "summary sheet," is filled up. This sheet consists of a printed list of the clearing banks. Each bank has its name at the head of its own list, and the other clearing banks are placed in alphabetical order in a column below it. There is a debtor and a creditor column, and opposite the name of each clearing bank is entered the amount due to or from it by or to the bank whose name appears at the top. The columns are added and a general balance is struck showing the total amount which has to be paid by or to the bank. Each bank has an account at the Bank of England, and there is also an account kept at the Bank known as the Clearing Bankers' Account. If a clearing bank is indebted on the general balance a white transfer ticket is made out authorising the payment of the amount due from the bank's account to that of the Clearing Bankers' Account, whereas if the Clearing Bank is entitled to receive anything a green transfer ticket is used, which authorises the payment of the sum from the Clearing Bankers' Account to that of the Clearing Bank. These tickets when made out are signed by the Inspector of the Clearing House, who thus certifies their correctness, and are handed in to the Bank of England.

Settlement.

The forms of the tickets are given on p. 193. The first is the white ticket, and the second the green one.

It is obvious upon very slight consideration that since all the dealings of the Clearing Banks are mutual, these general debit and credit balances must agree. Whatever sums are paid in by one or more banks are paid out to the other banks. The account of the Clearing Bankers is kept for the sake of convenience. One transfer ticket, either in favour of the clearing bank or against it, serves the purpose of cheques drawn in favour of or received by all the banks. For example, suppose there are fifteen clearing banks. They are certain to have mutual dealings daily. At the end of each day each bank has fourteen accounts to settle, to receive or to make payment of the balance due or owing. Without the Clearing Bankers' account fourteen cheques would be necessary. By means of the account one ticket completes the transaction. And the whole is conducted without the use of a single coin being necessary.

Cheques which are not honoured by the bankers upon whom they

SETTLEMENT AT THE CLEARING HOUSE.

*London,*__________191 .

To the Cashiers of the BANK OF ENGLAND,

Be pleased to TRANSFER from our Account the sum of ____________________ *and place it to the credit of the Account of the Clearing Bankers, and allow it to be drawn for, by any of them (with the knowledge of either of the Inspectors, signified by his countersigning the Drafts).*

£______ ____________________

SETTLEMENT AT THE CLEARING HOUSE.

BANK OF ENGLAND, __________191 .

*A TRANSFER for the sum of*____________________ ______*has this evening been made at the Bank, from the account of Messrs. Smith & Co., to the Account of the Clearing Bankers.*

For the Bank of England,

£______ ____________________

This Certificate has been seen by me,

____________________ *Inspector.*

SETTLEMENT AT THE CLEARING HOUSE.

London, Sept. 1*st*, 191 .

To the Cashiers of the BANK OF ENGLAND,

*Be pleased to CREDIT our Account the Sum of*____ ____________________*out of the money at the credit of the account of the Clearing Bankers.*

£______

Seen by me, ____________________

____

Inspector at the Clearing House.

SETTLEMENT AT THE CLEARING HOUSE.

BANK OF ENGLAND,

Sept. 1*st*, 191 .

The account of Messrs. Smith & Co. has this evening been CREDITED *with the sum of*____________________ ______*out of the money at the credit of the account of the Clearing Bankers.*

£______ For the Bank of England,

____

are drawn are sent back to the Clearing House before 5 p.m. on the day of exchange if they are London cheques, and country cheques are returned by the paying branch or bank direct to the bank whose name and address are written across such cheques. These are called "returns." Want of funds, irregularities of signature or of indorsement, orders not to pay, the death or bankruptcy of the drawer would cause a banker to return a cheque to the Clearing House. No banker, of course, is debited with any returns in making up the Clearing House accounts. The reason for the dishonour of each cheque returned must be clearly written upon the face of it.

Returns.

To facilitate the work of the Clearing House, all cheques which are presented through it must bear on their faces the name of the clearing bank which presents them, and when the cheques are from the country the name of the London agent of the country banker.

The whole of the description of the working of the Clearing House has been on the assumption that cheques alone are dealt with. As far as country clearings are concerned this is the fact. The Clearing House will have nothing to do with country bills and promissory notes. But in London, bills of exchange, promissory notes, and other orders for the payment of money are just as freely passed through the House as cheques.

Town and Country Clearings.

The main object of describing the Clearing System is to show the enormous advantages of banking in the way of exchange, and also the saving in the use of coins. But in order to make the system perfectly clear it is proposed to take two examples, one of a London cheque and one of a country cheque, and to show how the collection is carried out. A is a customer of the X bank situated in London. He pays into his account a cheque drawn upon the Y bank, also situated in London. The cheque is crossed, and the name of the X bank is written across the face of it—generally by means of an impressed stamp. On the same or on the following day the cheque is sent by X bank to the Clearing House (along with many others) and there handed to the representative of Y bank who takes it away. If everything is in order Y bank pays the amount of the cheque, in settling up the general balance at the end of the day, to the Clearing Bankers' account, and X bank receives the same from the Clearing Bankers'

Collecting a Cheque.

account, also on the general balance. The transaction is then complete. Take now the case of a country cheque. Suppose A, whose bank is at Leeds, pays B, whose bank is at Bristol, an account by means of a cheque drawn upon the Leeds bank. Upon receipt of the cheque B pays it into his account at Bristol, and the Bristol banker sends it to his London agent. The cheque is then dealt with, as far as the Clearing House is concerned, in the same manner as a London cheque, the agent of the Bristol banker handing it to the agent of the Leeds banker. On the same day the cheque is posted to the Leeds banker and he must make up his mind whether he will honour it or not. If he does so he informs his London agent of the fact, the London agent in turn informs the agent of the Bristol banker, and eventually B's account at Bristol is credited with the amount of the cheque. If a country cheque is not to be honoured there is a rule of the Clearing House that "any country bank not intending to pay a cheque sent to it for collection must return it direct to the country bank or the branch bank, if any, whose name and address is across it." But the fact of the dishonour must be communicated all the same to the London agent. It may be noticed that if it is desired to clear a country cheque without delay, a customer should give specific instructions to his banker to present it direct to the paying bank and not through the London Clearing House. In this way two days are saved, often a matter of great importance in the payment of a cheque.

Members of the London Clearing House.

The present members of the London Clearing House are the Bank of England, Barclay and Company, Capital and Counties Bank, Coutts and Company, Glyn Mills and Company, Lloyd's Bank, London and Provincial Bank, London and South Western Bank, London County and Westminster Bank, London City and Midland Bank, London Joint Stock Bank, Martin's Bank, National Bank, National Provincial Bank of England, Parr's Bank, Union of London and Smiths Bank, Williams Deacon's Bank. In the case of some of the larger of these banks the various branches clear direct without sending their cheques, etc., to the head office. Several of these banks have amalgamated during 1918.

The amount of work done by the Clearing House varies with different seasons of the year. At the times when dividends are paid and Stock Exchange settlements are made the transactions are of enormous magnitude. The third, fourth, or fifth day of each month is also a busy time owing to the fact that many bills of exchange are drawn payable upon the first of a month, and are, therefore, not due until the third, fourth, or fifth, owing to the allowance of the days of grace. The fourth is in general the busy day, but the due date of payment may be the third or the fifth if the fourth is a Sunday or a Bank Holiday. On an average, however, the amount of the transactions varies from 200 to 300 millions a week. In 1917, a record year, the total sum dealt with by the London Clearing House reached the enormous amount of £19,121,196,000.

Magnitude of Work Done.

In addition to the London Clearing House there are similar institutions at Birmingham, Bristol, Leeds, Leicester, Liverpool, Manchester, Newcastle, Nottingham, and Sheffield. The amount of cheques cleared in these establishments is increasing year by year. There is no rivalry at all between the provincial clearing houses and the London Clearing House. Each local one is established to facilitate the collection of cheques and bills within its own town or within a definite area surrounding it. For example, at Sheffield, cheques are received if drawn upon banks within an area of 25 miles. If there was no clearing house in any of these towns the bankers would not send their cheques drawn upon other bankers in the same town to London, but would present them themselves. It is only when cheques are drawn upon bankers in other towns that London is made use of as a convenient means of obtaining payment. Local differences are settled by cheques drawn upon the local branch of the Bank of England, each of the local bankers having an account there.

Provincial Clearing Houses.

The clearing system was practised in Edinburgh before it took root in London, and there are now clearing houses in most of the large towns of Scotland and Ireland. In Scotland the clearing is also made use of for the purpose of exchanging the notes issued by the various Scotch banks, the number of which is very considerable. In spite of the fact, however, that the clearing system is so complete in each of the three kingdoms, there is no arrangement made for international clearing—a great drawback and also a financial loss.

Scotch and Irish Clearings.

The Americans were not slow to recognise the advantage of a system which economised the use of gold. They also perceived the importance of such a method of exchange as that used by the clearing houses in a country where the distances between the various centres of commerce and banking were so great as in their own.

New York Clearing House.

In New York the cheques received on the previous day are sent to the Clearing House to be exchanged. At 10 a.m. precisely the clerks begin to deliver cheques to the various banks, and this is completed in about 10 minutes. The amount must agree with the totals in the books of each bank. For the settlement of accounts a statement is prepared which is somewhat like the summary sheet of the London Clearing House. The following is a specimen :

THE FIFTH NATIONAL BANK.

SETTLING CLERK'S STATEMENT. *November 5th,* 1904.

No.	Banks	Debit				Debit	Credit				
1	National Bank of Commerce		200	160	45			160	400	20	1
2	National City Bank		50	300	40			30	590	08	2
3	Bank of America		150	620	37			100	630	25	3
4	Merchants' National Bank		46	200	70				190	67	4
6	Hanover National Bank		300	190	67			200	140	30	6
8	Astor National Bank			160	25			2	145	50	8
10	Mechanics' National Bank		309	430	10			170	100	23	10
	Footings	1	057	062	94			664	197	23	
	Balances							392	865	71	

The settling clerk strikes the balance on the settlement sheet. If the balance is on the credit side, the amount is shown which is due from the Clearing House. If the balance is on the debit side, the amount is shown which has to be paid to the Clearing House. When this has been done a balance ticket is prepared, and this ticket is delivered to the proof clerk of the manager of the Clearing House, who makes out the final balance sheet of the various banks. Forty-five minutes are allowed for completing the proof, and fines are imposed upon the clerks for mistakes. Each debtor bank has to pay in cash between the hours of 12.30 and 1.30 the amount due to the clearing banks. Payment is made in cash available for reserves, but this includes Clearing House gold certificates, and a arge part of the balances are paid by these. Each bank has gold coin on actual deposit in the Clearing House vaults, and for this certificates are issued which can only be used for settling differences. The following is a copy of the certificate :

No. —. New York, ——, 191

NEW YORK CLEARING HOUSE ASSOCIATION.

This certifies that there have been deposited with the New York Clearing House Association, by the ———— Dollars in United States' gold coin to be held as a special deposit payable in said coin to the order of said Bank on demand to any Bank member of the New York Clearing House Association only on surrender of this certificate indorsed by the Bank demanding payment of the same.

Registered at the New York Clearing House,
New York Clearing House Association,
by W. A. Nash, Acting Chairman,
Clearing House Committee.

Wm. Sherer,
Manager.

This Certificate is issued for Clearing House purposes only.

The certificate is transferable by indorsement to any bank which is a member of the Clearing House.

The United States Sub-Treasury has the privilege of clearing through the Clearing House, and this is of considerable advantage to the banks, since they hold cheques drawn upon the Government for various purposes.

As in the United Kingdom there are certain local clearing houses in the United States. But there is no good system by which cheques drawn upon country banks are cleared otherwise than locally. The usual method adopted is to forward cheques drawn on a bank at any specified place to the nearest town where a New York bank is sending remittances. This is done on the principle that the bank where a remittance is received may possibly be remitting to the place on which the cheque is drawn. The method is somewhat inconvenient, since the cheque may be sent from one town to another, and if no remittances are made to the town where the cheque is payable considerable delay occurs in the collection.

From the most recent statistics if appears that the volume of the clearing in New York amounts to as much as $1,500,000,000 per week.

Produce Clearings.

The system of clearing can be applied to any commodity, if there is a degree of uniformity about the nature of the articles dealt in, and this either for the payment to be made for them or for their supply. A large organisation for the purchase and sale of securities has adopted the system of clearing since 1874.

Stock Exchange Clearing House.

The Stock Exchange has two sets of members, viz., brokers and jobbers. The former purchase or sell securities for clients and transact business through the latter, who are in reality merchants in certain commodities, viz., stocks and shares. A broker has an order to buy and goes to a jobber who possibly has at that moment no stock in his possession, but who nevertheless makes a bargain to sell on the chance of buying the required stock from another broker. The settlement in stocks is effected once a fortnight, and the stock bought by broker A may have been bought and sold many times over before it ultimately reaches him on the day of settlement. Now all these transactions may be effected without payment. The clearing is carried on by a system of balance sheets and tickets, no money or securities being received in the Clearing House. Every member has to forward a balance sheet which shows for each particular stock the various amounts purchased by him, and also the amounts sold by him, which he has to deliver on the settling day. This list also contains the names of the sellers and of the buyers. The balance of stock to be received or delivered is shown on the balance sheet. When this list is received at the Clearing House, each item is cancelled against the corresponding amount of stock stated on a list supplied by the other member. After this has been done the balances only will remain outstanding. When all the balances have been added up it will be seen that the total amount of stock sold will equal the amount of that purchased. Those who have to deliver stock are then supplied with tickets giving the separate amounts into which it must be divided, with the names of the members who have to receive the same. On the other hand, tickets are given to those who have to receive stock showing who will deliver the same. The receiver pays to the member delivering a fixed price for the stock, which is fixed two or three days prior to settling day, and is known as the "making-up price." All differences between this price and prior transactions are adjusted by the dealer or jobber and the stockbroker.

The clearing is particularly useful in those groups of stocks which are designated "speculative," because in many cases the stocks are not actually sold, but carried over from account to account—the buyer or the seller paying the difference in price which is called the "contango."

In 1888 a society was formed called the Beetroot Sugar Association for the purpose of clearing that particular kind of sugar.

Clearing House for Sugar.

As there must be uniformity, the clearing was based upon lots of 500 bags of a definite weight and quality. When a broker sells a quantity he issues what is known as a "filière" for each 500 bags, giving particulars as to ship, warehouse, and trade marks. This filière is a sheet of paper somewhat similar to a dock warrant, giving the above-mentioned particulars, but it contains a series of transfer forms which are filled up and signed by each successive holder, by means of which the sugar is transferred to a new purchaser. There is a coupon attached to the filière which gives the date and the hour of sale, and this is detached by the seller who retains it as evidence to determine any liability in consequence of delay in the transaction.

Any purchaser who requires delivery sends the filière to the Clearing House, and his name is forwarded to the first seller who tenders him the warrant direct. These documents may pass from hand to hand within a limit of six days. When a transfer is effected a stamp is affixed for the clearing fee.

The difference between each transaction, either profit or loss, is adjusted by the Clearing House, which either sends a cheque for the profit, or requests that the amount of loss may be paid at once to the bankers of the association.

The system appears to work smoothly, and it is considered advantageous in the trade. There is a considerable saving of clerical work, and the ultimate balance to be paid in cash is comparatively small. A great economy in the transfer of cash from one bank to another is also effected, and in that respect the system is beneficial to the London banks.

In 1888 an institution was formed for the purpose of regulating and adjusting bargains in colonial and foreign produce. At first the only articles cleared were tea and coffee, but afterwards wheat and silver were included. The objects of the institution are to guarantee the fulfilment of bargains for future delivery both to the buyer and to the seller, as well as the weight and quality of the commodity dealt in. This is effected by means of a margin provided by the contracting parties to secure the association against future loss. Since the transactions are ultimately settled by the final balance owing, there is a considerable economy by the use of this clearing system. Of course the articles cleared must be uniform in weight and quality, otherwise it would be impossible to settle the transactions. The wharf which holds the commodity guarantees the delivery of the same after the Clearing House certificate is attached to the warrants to be the same as that described in the certificate of guarantee. This system is also of great service to banks, because fewer cheques are drawn by firms which have considerable dealings in the markets for such commodities.

London Produce Clearing House.

An association was established in 1842, and afterwards regulated by an Act of Parliament, passed in 1850, called the Railway Clearing Act, by which railway companies in England and Scotland are enabled to carry on through traffic over various lines as if they all belonged to one company. From a small beginning with a staff of four clerks it has grown to such a size that it now finds employment for more than two thousand persons. The whole of the accounts in respect of through bookings, and of similar dealings, so as to strike a balance between the various companies, are made up at the Clearing House, which is directed by a committee of delegates appointed by the companies which are parties to the clearing system. The railway Clearing House is situated in Seymour Street, close to Euston Station, the London terminus of the London and North Western Railway.

Railway Clearing House.

At Liverpool the principle of clearing has been adopted for cotton transactions, but it is rather a complex system, since forty-six different forms of contract, orders for delivery, etc., have to be applied in the process, and eleven more are necessary so as to connect the Cotton Brokers' Bank, the name of the association working in conjunction with the local branch of the Bank of England, which conducts the clearing. These

Cotton Clearing.

numerous forms are required in order to deal with the re-sale of the bales of cotton before they ultimately reach the final purchaser.

Such questions as insurance against fire, the possibility of arbitration to settle disputes, appeals against decisions, different methods of dealing according to special rules in force, whether the cotton comes from America or our Eastern dependencies, the various incidents which may arise in consequence of a complicated business, as well as the final adjustment in cash, are provided for by special rules drawn up by the Clearing House.

All the effects, whether cash, cheques, bankers' drafts, or telegraphic transfers, are lodged with the Liverpool branch of the Bank of England for the credit of the Liverpool Cotton Bank Clearing Account. The members then transfer the amounts from one to another, and at the end of the day the Cotton Bank sends a completed pay list to the Bank of England, so that balances owing to the members are paid by cheque. The method is similar to that of other clearing institutions, since the differences between the sale and the re-sale of cotton are adjusted by one cash transaction.

The Liverpool banks profit considerably by the system, since a large number of cheques would have to be drawn by the old method, when every purchase and sale was effected either by cheque, gold, or bank notes.

All such methods, therefore, are of great service to the community, because they not only reduce the amount of the circulating medium required by the country, but are of considerable value to the banks which become the final clearing houses for all commercial transactions. It can be seen at once that the method could be applied to any commodity of the grade, weight, and quality were identical. For example, if tea was shipped in chests or boxes of identical weight and quality there would be no difficulty in applying the clearing system to it. In addition to being advantageous to the banks and to the community generally, as diminishing the quantity of money and the circulating medium required, there is economy in work, and therefore a benefit in prices to be obtained by all classes of people.

CHAPTER XI

THE ORGANISATION OF A BANK

No large undertaking can be successfully carried on unless there exists a complete supervision over all its workings. Owing to the fact that there have been amalgamations of banks on a gigantic scale during the last few years, it has become practically impossible for any bank manager to undertake the supervision of every banking transaction. Sub-divisions of the work are absolutely necessary, and the direction of these sub-divisions must be placed in the hands of various officials. Each official is responsible tor his own department, and, of course, ultimately to the bank manager himself for what has been done. It is here intended to give a description of the various departments of the head office of a London bank to show how the divisions are made, and the manner in which the work is supervised.

Receiving and Paying Cashiers.

Upon entering a bank there are seen officials behind a long counter whose duties are either to receive credits from customers, or to pay cheques or bills drawn upon the bank. In a small establishment the receiving cashier and the paying cashier may be one and the same person, but it is usual for the work to be divided, and often there are several receiving and several paying cashiers. Again, a further sub-division is sometimes made according to the number of current accounts, and each cashier, whether receiving or paying, receives from or pays on behalf of customers the initials of whose surnames commence with certain letters. Thus, receiving cashier A will receive credits for customers whose surnames commence with the letter A to C. If the bank has a large number of country customers, and also undertakes the agency work of country banks, it is generally found convenient to have a separate department for this branch of its work, and a separate staff of cashiers is required for it.

The receiving cashier receives the cash articles of the customer, cheques, notes, or money, sees that they are properly entered on the credit slip, initials the counterfoil in the paying-in book, keeps the credit slip and the cash articles, and returns the paying-in book to the customer. The work of the paying cashier, when a cheque is presented to him for payment, has been already sufficiently described.

Division of Cheques.

As to the cheques which are paid into a bank, there are two important divisions, viz., those which are drawn on clearing bankers, and those which are drawn upon banks which are not represented at the Clearing House. It is obvious that these cheques must be divided, because they have to be collected through different channels. There is, moreover, a third division of cheques, viz., those drawn on the Bank of England. These are kept quite separate, because that institution only uses the Clearing House for the purpose of presenting cheques drawn upon clearing bankers.

Waste Book Clerk.

The receiving cashier enters the total in his cash book and gives the credit note to another official called the waste book clerk for the purpose of entering it in a book which will be subsequently described. This is done in order to analyse the various articles, and a record is kept of the amounts of each in separate columns. After this has been effected they are handed over to different departments. The cheques drawn upon clearing banks are delivered to the clearing clerks for the purpose of their being sent to the Clearing House for collection. Those cheques which are drawn on non-clearing banks are received by what is known as the walks department. There they are sorted by a staff of clerks into various divisions for the purpose of their being sent out for collection by walks clerks. The total amount of the cheques must agree with the totals in the specified columns of the waste book.

Walks Department.

Paid Cash Books.

The cheques, which are drawn on the bank itself, are entered separately in the books which are known as the paid cash books, and which are kept by a distinct set of clerks.

Bank of England notes and country bank notes are retained by the cashiers, who afterwards deliver them to the chief cashier, the amount so received forming part of the cash balance of the bank.

The receiving cashiers make out a docket of the total amount of sums received for entry in the ledgers of the bank. The duties of the clerks who have charge of the ledgers are to make all the entries, both debit and credit, and to show the balance owing to or by the customer. The ledgers are sub-divided in a similar manner to the received cash books, so that the two books may be compared either daily, weekly, or at any other specified time.

Ledger Clerks.

When the credit slips and the cheques paid in during the day have been entered in the ledger, they are delivered to the pass book department for the purposes of entries being made in the customers' books. Before this is done, however, the cheques are cancelled by means of a perforating machine, and this cancellation records the date of payment.

Pass Book Department.

It is obviously important that the three sets of books already named, viz., received and paid cash books, ledgers, and pass books should agree. In order that they may do so, a daily examination is made by a staff of clerks, and each entry in the books is called over by a ledger clerk to the examiner. There is, however, another check upon the entries in the books, and this is by means of the daily balance. This work is undertaken by other officials whose duty it is to find out the errors, if any, in the books.

Check or Examining Clerks.

The totals of all the credits and cheques paid are entered into a cash summary book as follows:

Amount of Cash previous day..	£10,000	Amount of paid cash books....	£6,000
Received cash books .	5,000	Notes	100
		Money	7,900
		Bank of England cheques	1,000
	£15,000		£15,000

From the above it will be seen that the balance has been reduced to £9,000, which consists of notes, money, and Bank of England cheques. This is a simple form of a cash summary book. In a large bank, however, there are a great number of transactions to be recorded, but the principle is to balance the books, in the manner already described,

Cash Summary Book.

and if the amount of cash held at the close of the day's transactions does not balance the two sides of the account there must be some mistake in the various entries.

Paying Cashiers.

The paying cashiers receive a certain amount of money from the chief cashier and record in their books the cheques paid, but they have nothing further to do with such cheques, which are handed over to the clerks in charge of the paid cash books. At the end of the day the cashiers must agree their books and show the balance in notes, gold, etc. The inspector is required to verify the balance at stated periods during the year.

Clearing Clerks.

In the last chapter the work of the Clearing House was explained. In all clearing banks there are two sets of clerks known as "in" clearers and "out" clearers. The first named go to the Clearing House and receive the cheques and bills drawn upon their respective banks. After the entries have been made, clerks are sent from each bank to receive such documents, and they take them to the various banks for entry in books known as "clearing supplements." The "out" clearers receive cheques and bills drawn upon other banks and send them to the Clearing House, where they are delivered to the clerks of the various banks upon which the cheques and bills are drawn.

Paying Cheques.

These two sets of clerks undertake the work connected with the payment and receipt of clearing cheques, but they do not, however, actually pay the cheques. This work is done either by the receiving or the paying cashiers, or by the ledger clerks. When a cheque has been paid the clerk initials it; in fact he becomes responsible for the transaction. Of course, the ledger is always accessible in order to ascertain the customer's balance; but, in addition, the clerk has a "stop" book, which contains a list of cheques not to be paid, and also a list of doubtful accounts.

Bill Department.

The bill department of a bank undertakes the work connected with bills of exchange. There are three classes of such documents, viz.:

(1) Those paid in for collection and designated "short."

(2) Bills received from country banks and foreign correspondents for collection.

(3) Bills which have been discounted and which are held as security.

When bills are received it is first of all necessary to see that they are properly drawn and adequately stamped (see Chapter VIII.) The next operation is to insert the date when they will fall due in the top right-hand corner. If bills require acceptance the walk clerks leave them with the drawees for that purpose on the day after their receipt by the bank. As soon as acceptance is completed, they are entered in the books, which will be referred to later, and then sorted and put away in the order of their respective dates of falling due.

It has been already pointed out that it is of the utmost importance that bills should be duly presented at maturity in order that the rights of the holder may be enforced against any of the parties. For this purpose entries of bills are made in diaries under their respective dates, and as the bills fall due they are marked off against such books and then presented for payment.

A check is provided by crediting the various accounts from the bill registers, so that if any bills are not presented on their due date, the books of the bank do not balance. Those bills which are bought from customers or discounted are entered in the discount ledger, the process being as follows: John Evans & Co., are credited with, say, £1,000 for bills discounted, and their account is debited in the discount ledger. At maturity cash is received, so that the discount ledger is credited, and cash is debtor for the amount.

Country Department.

The country department of a bank deals with a variety of transactions on behalf of country and foreign correspondents. A country bank remits day by day cheques and bills which are payable in London. These have to be sent out for collection through the various channels which have been already enumerated, viz., walks, clearing, Bank of England, etc. Payments have to be made to banks on account of customers who have transactions with the metropolis, or bills may have been sent for collection, and the London agent is required to present them for payment or send them abroad for that purpose. All these matters are carried out by the London agents of the country banks, and the Clearing House and the Bank of England make it possible for enormous business transactions to be carried on without the necessity of coin or notes being sent from the country to London.

At one time the collection of country bank notes was an important part of the work of the country department of a London bank, but in recent years the number of such notes has considerably diminished, and the task of collection has necessarily declined. Again, drafts have to be obtained for the purpose of remitting money to foreign countries. These are bought from the various brokers who deal in bills and cheques payable abroad. Possibly stocks and shares have to be bought or sold but this work is usually carried out by the securities department But whatever the cash transactions carried out, the whole of them must be concentrated in the general cash book, which is a summary of the daily operations.

It has been stated that the country department undertakes the work for foreign correspondents, which largely consists in the acceptance of bills drawn abroad upon the London bank. Such acceptances have been classified as follows:

(1) Drafts of seven, fourteen, or twenty-one days drawn by country bankers for the purpose of remittance.

(2) Acceptances up to ninety days against credits established by banking correspondents in the country.

(3) Acceptances on account of foreign and colonial banks having head offices in London.

(4) Acceptances to mercantile firms and companies abroad.

On reference to a balance sheet it will be found that acceptances form a very important item, and it is desirable to have some idea with regard to the same. A large number of bills are drawn abroad for the payment of goods shipped to this country and *vice versâ*. When the bills have been accepted they become as it were cash, because bill brokers are willing to discount them at fine market rates. In consideration of a bank accepting such documents a certain commission is charged, and also a percentage on the yearly turnover, which is the total amount paid for that period. The bank requires collateral security for the performance of such operations, and negotiable securities are lodged as cover for the due payment of the bills.

It will be noticed from a balance sheet that it is customary to show the amount on both sides under the heading of customers' acceptances. The work connected with such documents is similar to that of the bill department.

The bank is informed of all drafts drawn upon it, and on receipt of this advice, the full particulars are entered in the advice book. The drafts are also entered in the advice diary draft book, where they are classified under the dates upon which they fall due. When bills have been accepted, it is necessary to discharge them in this book. Full particulars of the bills, such as the bank's number, the name of the drawer, the date of the draft, the term, the payee, the customer's number, the date when accepted, the date of payment, the amount, and the name of the holder of the draft, appear in the acceptance draft journal. In order to check the various entries, the bills are entered in the acceptance cash book, which must agree with that already described, viz., the advice diary draft book. An impersonal account may be opened in the ledger to show the bank's indebtedness for bills accepted for correspondents, but the usual course is to have a book known as the bills payable accepted ledger, which shows the amount outstanding on each account.

When bills are left for acceptance they are compared with the advice book, and if perfectly in order they are accepted by the bank. The usual method is for two officials to accept on behalf of the bank. When they are presented for payment the bills are discharged in the books which have been already described.

Collection of Scotch and Irish Banks.

The country department also undertakes the collection of cheques drawn upon Scotch and Irish banks. It was pointed out in the last chapter that none of the banks of Scotland or Ireland belong to the Clearing House. At one time it was the usual method for an English country banker, who received a cheque for collection drawn upon a Scotch or an Irish bank, to present the same directly through the post, and to request a draft on London for the amount in return. This was usually sent, less a small charge made for commission. Now, however, several of the larger banks have made arrangements for the mutual collection of cheques through their London agents.

Securities Department.

The securities department of a bank deals with the work connected with securities lodged either for safe custody or as cover for a loan. The usual methods of book-keeping are adopted in this department, viz., journal and ledger entries. Particulars of all securities when lodged are first entered in the journal, and then another clerk in the department enters them in the securities ledger, where full particulars of the stock lodged are recorded. This book is kept in a manner similar to that of an ordinary ledger. When securities are deposited at a bank the particulars are entered on one side of the account, and when delivered up they are discharged on the other side.

As there are a large number of bearer securities with coupons attached, a considerable amount of work is entailed with the collection of the same. A series of diary entries is made so that coupons may be presented at maturity.

Another part of the work of the securities department consists in the buying and selling of stocks and shares on behalf of customers. The banks employ a stockbroker to transact the business on the Stock Exchange, and receive a part of the commission on the transactions. Securities are delivered or received from the brokers on customers' accounts, and entries are made in the books of the various sales and purchases.

Correspondence Department.

There is a separate department for correspondence, where all letters are received, and it is the duty of the clerks of the department to open the letters and take note of the remittances contained in them. It is usual to make a list of all letters received in case any get mislaid in consequence of being sent to so many departments of the bank. When this has been done the remittances are delivered to the various departments for credit or for collection. In the case of foreign bills which are received it is necessary to see that the proper bill stamps are affixed before they are sent out for presentation for payment. All letters received are sorted and filed for future reference after acknowledgment. Cablegrams and telegrams are also received in this department. If they are in cypher a translation is made at once and a note taken of the instructions contained. This work is also very considerable, and large amounts of capital are transferred daily in London from one bank to another by means of telegraphic transfers.

Accountant's Department.

The accountant is responsible for the correctness of the book entries, and various returns of loans and discounts are prepared in his office either for the use of the directors, or, in the case of a branch bank, for the use of the head office. The returns from the branches are received weekly, and all the particulars duly noted and recorded. Also the securities which are lodged either for safe custody or against loans are checked against the journal entries before they are deposited in the strong rooms of the bank.

The general cash book is an important one, and it will be subsequently described. It is necessary that it should be posted daily, and this cannot be done until the balance of cash is correct. A special staff of clerks conducts this work, and they report to the accountant when the final entries can be made. The general ledger is also kept in the accountant's department, and from this the half-yearly profit and loss statement is prepared.

The manager's department is that which deals with loan transactions, and here a record is kept of all particulars respecting loans, advances, and discounting bills. Applications for loans are received in this office, and here documents are deposited as collateral security when loans are granted. With regard to bill discounting, particulars relating to the drawer, the acceptor, and any indorsers are duly recorded for future reference. It is of the utmost importance that such records should be kept, in order to avoid the risk of loss which would be certain to arise if bills of doubtful value were discounted.

Manager's Department.

Separate ledgers for loans and discounts are kept, and the entries show how much of the surplus funds of the bank have been utilised for these purposes.

Money at call, which is an important item in the balance sheet, is under the control of the manager.

In order to ascertain the financial position of the bank, a statement is prepared every day which shows what it is, as far as it can be ascertained. For the purpose of preparing this statement an account is taken of the various remittances which have been sent by post, as well as the amount of bills maturing on account of town customers and country banks. To these are added the amounts to be received through the Clearing House on account of the country clearing. With respect to payments, there are, similarly, advices from country banks and other correspondents of the various sums to be paid. The amount to be paid on account of acceptances maturing is also included.

When it is found necessary to increase the cash reserve, the amount required is obtained from the Bank of England. If the balance at that institution is below the usual reserve, it is necessary to ascertain the amount required to replenish cash, so that money at call can be proportionately decreased. When there are any customers' accounts with abnormally large balances, an allowance must be made to provide for this contingency. As a rule the daily fluctuations of amounts received and paid are small, in fact the receipts practically balance the payments. When, however, a large public loan is floated in the market, the effect is to diminish the cash reserve, which is met either by calling in loans from the brokers, or by reducing the cash balance at the Bank of England.

The manager makes an approximate estimate of all the causes which are likely to have an effect upon the floating balance, and if he finds it possible to lend money, the bill brokers who generally attend every morning are informed how much the bank is prepared to lend either at call or at seven days' notice, or possibly for a longer period. Each broker keeps a current account with the bank, so that when a loan is granted his loan account is debited, and his current account credited. If, however, it is necessary to call in money, the broker gives a cheque for the amount, and receives the securities deposited by him with the bank at the time of the granting of the loan.

These securities, which are generally known as "floaters," are bearer securities, and, therefore, easily negotiable. As a rule they consist of Consol Certificates, Exchequer bonds, Treasury bills, or Indian railway bonds guaranteed by the Government. All securities lodged are carefully checked, and entries are made in the ledger giving full particulars regarding the same. After this has been done they are delivered to the securities clerk who deposits them in the strong room of the bank. Although entries have been made in the journal and the ledger, the clerk makes an entry in another book of all securities, either deposited in or withdrawn from the strong rooms. This is an additional check on the journal entries, and at the same time it affords another record of the transaction.

Inspectors.

It is highly important for a bank with large deposits, especially when there are many branches, to have a perfect system of check on all the various banking operations which take place. This is done by means of inspectors, who must have a thorough knowledge of the daily routine. It must not, however, be forgotten that the daily examination of the ledgers forms an important link in a series of checks upon the book entries. There is, n fact, a continual inspection taking place by three sets of officials, viz., examiners, inspectors, and managers.

The following are the principal duties of inspectors: (*a*) Count the cash, (*b*) check the bills held against diary entries, (*c*) examine all securities periodically, (*d*) examine overdrafts, (*e*) receive pass books direct from customers, (*f*) see that the daily examination by the staff is carried out efficiently, (*g*) investigate the discipline of the branch, (*h*) examine the general ledger, (*i*) value the securities held against loans and overdrafts.

Reference has been made to the daily examination; but there is an additional safeguard—the clerks examine different ledgers. For example, the clerk in charge of the A ledger on one day examines with another official the B ledger on the following day, and so on. In this manner every book is carefully and fully checked. In a general way the inspector at the end of each month informs the clerks which are the ledgers they will have to post during the following month. Similarly the receiving and the paying cashiers take charge of different cash books every month. The cash in hand is checked weekly and monthly, not only by inspectors, but also by the bank manager, and, in the case of a branch, the correctness of the amount is certified to the head office. The Inspector also examines the bills which have been discounted in order to ascertain that the total amount held agrees with the book entries.

The method adopted at the head office is carried out in a similar manner at the branch offices of the bank. Weekly returns are sent in by each branch to the head office, and these are carefully examined by the manager, and afterwards submitted to the directors for their approval.

Branch Inspection.

After this has been done the returns are delivered to the inspector's department where notes are taken of the various changes which have occurred since the last return was made. It is then necessary for the inspector to make a weekly or a periodical visit to the branch. He takes with him the return, which is in reality a balance sheet showing the assets and the liabilities, together with an account of the bills discounted for customers, and the particulars of the advances made. The inspector first examines the general cash book and verifies the entries by the weekly balance sheet. If these agree, he initials the cash book as being correct. Of course it is impossible to check the cash against the return, because of the changes which have occurred, but the amount held on the previous night can be verified by checking the tills before the branch commences its daily work. The bills discounted are also examined in order to see whether the return is correct. In a similar manner the advances are checked, and securities lodged as cover are examined to see whether the bank has a perfect title to them. Securities lodged for safe custody on behalf of customers are also examined and compared with the ledger entries.

The above forms the weekly routine of an inspector at a branch bank, but in addition to this there is a monthly inspection which includes the valuation of all documents lodged as securities for loans, and also the examination of the bills which have been discounted. The names of the drawers, the acceptors, and the indorsers are gone through with the greatest care in order to ascertain whether the bills discounted at one branch of the bank bear the same names as those discounted at any other branch.

Inspection by Directors.

In some banks one of the directors makes a personal inspection of the branch offices, and examines the general cash book in order to discover whether the inspector has made his periodical examination. The general business of the branch is then noticed, and, if necessary, whatever books and securities it is considered desirable to examine are produced. From the weekly reports submitted to the directors a general idea is obtained as to the management of the branch, so that when a director visits a branch he is in possession of certain facts which enable him to ascertain whether the returns are correct.

Half-yearly Statement.

At the end of each half-year all the books of the bank are balanced in order to prepare the half-yearly statement which is submitted to the shareholders. This statement is, in fact, a general review of the financial operations for the half-year. From the general ledger the half-yearly profit and loss sheet is prepared, and every branch transmits to the head office a similar statement showing the amount of profit which has been made, together with particulars of any losses which may have taken place during that period. The balance of profit from each branch is transferred to the head office by entries in the books. The branch credits the head office with its profit, whatever the amount may be, and at the same time the head office debits the branch. When all the profits have been ascertained, the final profit and loss statement can be easily prepared.

The general balance of the books is also necessary for the purpose of examination by the auditors appointed for that purpose, whose duties may be summarised as follows: (*a*) examine the cash, (*b*) check the bills discounted against the diaries, (*c*) verify and inspect securities lodged as cover for loans, (*d*) ascertain the amount of loans and overdrafts, (*e*) check the deposit and current account ledgers against the balance trial sheets, (*f*) ascertain the amount of cash articles in transit, (*g*) examine the charges account for the half-year and check the profit and loss statement, (*h*) check the general ledger and see that the totals are entered correctly in the balance statement.

Auditors.

It will be seen from the above that the cash held must be examined, as well as the various securities which are deposited as cover against loans and overdrafts, and also against acceptances which appear in the balance sheet as a liability. The auditors ascertain the totals of current accounts from the balance statements which are prepared by clerks at the end of the half year. The balance of the bank's current account at the Bank of England is checked, and the investments are also carefully examined. When this has been done in accordance with the Companies Act, the auditors report to the shareholders that they have made the necessary examinations and that they find the same correct.

The organisation of a bank is practically under the control of the directors, who are responsible for the successful management of deposits entrusted to their care. Reports from all departments are brought before them daily, and special notice is taken of loans and overdrafts. Many branch managers are, as a rule, not allowed to grant loans for large amounts without bringing the application before the board of directors. All the facts relating to advances are carefully examined, and great care is taken with regard to the security which is offered and also the financial position of the applicant. The larger banks appoint various sub-committees, consisting of a few of the directors, and to each of these sub-committees some special work of

Directors.

supervision is delegated, as it would be impossible for the whole body of directors to decide all minor points connected with the management of the bank. This is particularly the practice at the Bank of England, where there are several committees appointed for the purpose of individual investigation, and any important point is discussed by the whole board at the weekly meetings of the directors.

CHAPTER XII

BANK BOOK-KEEPING

WHEN bank book-keeping is considered it is most important to remember that the only commodity dealt with is money or capital, but that the method of recording entries is the same as that adopted by a merchant in the ordinary course of his business. A complete set of bank books will be given in order to illustrate the method. But it must be understood that there is no uniformity, because each bank has its own system in order to meet its peculiar requirements.

Liabilities.

A study of the balance sheet of a bank will show that the liabilities of a bank consist of three kinds, viz., to shareholders, to depositors, and to holders of bank acceptances. The shareholders have provided the capital required to carry on the business of the bank, the depositors have placed money in the bank on deposit or on current accounts, and the holders of acceptances are those persons to whom the bank is liable to pay the amounts of bills when they fall due.

Assets.

The assets of a bank differ somewhat from those of a commercial firm, since a considerable portion of them consists of cash, in the form of gold, silver, or bank notes. There are also investments which can be realised at short notice. These two are known as liquid assets. In addition there are included in assets bills discounted and advances, which are in many respects similar to the assets of a merchant who holds bills against goods sold, or who has creditors owing him various amounts against which possibly there is no security. It has been stated that acceptances are a liability; but at the same time they form an asset, since a bank will scarcely ever take an acceptance without some security being deposited as cover. The last form of assets consists of the bank premises. There are thus five kinds of bank assets, viz., money, investments, bills and loans, acceptances, and premises.

As money is the main and the most important commodity dealt with by a bank, the books used are for the purpose of recording entries as to money, but as there are various forms of money, or documents representing the same, a large sub-division of book-keeping books is necessary.

The books of a bank may be divided into two classes as follows :—

BOOKS FOR RECORDING ASSETS

Received cash books Paid ,, ,, Money book Journal or general cash book General ledger Investment ,, Discount ,, Loans ,, Bank Premises ledger	Primary.
Waste book Clearing ,, Walks ,, Paying Cashier's book Discount cash book Discount day ,, Bank of England note book Cash summary book	Subsidiary.

BOOKS FOR RECORDING LIABILITIES.

Current account ledgers, town ,, ,, country Branch ledgers Deposit ,, Pass books Acceptance ledger	Primary.
Deposit day book Cheque ledger Short bills ledger ,, ,, diary Acceptance cash book Advice book Customers' securities ledgers	Subsidiary.

It is absolutely necessary in the case of a large bank that there should be an extensive sub-division, owing to the fact that so many different operations have to be carried out day by day. And by this means it is also possible, without much trouble, to balance the various books at the end of each day, and to see that all the accounts are accurate in every respect. A bank would soon be in a state of chaos unless it was in a position to clear up and agree its books every night.

There are various forms in which money is received by a bank. Sometimes it is in notes and bills, and at others in gold and silver. But the largest dealing is in cheques. The whole are known in a bank as "effects."

Effects.

With regard to cheques a sub-division has to be made, since they are collected or presented for payment by various methods. Reference has been made in the chapter on Clearing Houses to the different kinds of cheques presented at a bank, and it is obvious that for the purposes of collection they may be divided into the following classes:

Division of Cheques.

(1) Cheques drawn upon Clearing Bankers.
(2) ,, ,, ,, Non-clearing Bankers.
(3) ,, ,, ,, Bank of England.
(4) ,, ,, ,, the bank's customers.
(5) ,, ,, ,, country banks.
(6) ,, ,, ,, Scotch and Irish banks.

It will be seen at once that in order to record the entries of such documents correctly, they must be entered in different books. In the office of the ordinary merchant there are three principal books of account, viz., the journal, the cash book, and the ledger, and the same books are used in a bank, although the journal is called the general cash book.

It is best to give an illustration of what takes place when a payment is made into a bank. Take, for example, the case of a customer who pays in £10,000. The paying-in slip will be made up, perhaps, as follows:

Paying-in Slip.

Lloyds' Bank	£500
London Joint Stock Bank	2,000
London and Westminster Bank	3,000
Union of London and Smith's Bank ..	3,000
Williams Deacon's Bank	500
	£9,000

Cheque drawn on the customer's bank	£100
Coutts & Co.	200
Drummond & Co.	200
Bank of England cheque	100
,, ,, ,, notes	100
Gold	200
Silver	100
	£10,000

The counterfoil of this slip is initialled by the cashier who enters the total amount in the cash book; he retains the notes and the money, but gives the other effects to the waste book-keeper who re-enters the credit in the waste book where it is analysed as follows:

Waste Book.

WASTE BOOK.

Name.	Amount.	Clearing.	Walks.	Bank of England.	House Cheques.	Notes.	Money.

The cashier prepares a docket with the name of the customer as follows:—

Credit J. Brown & Co., Jan. 1, 19....

Cash £10,000

This docket is handed to the ledger clerk, who enters it to J. Brown & Co.'s credit in the ledger. There are thus three entries of the credit, viz., cash book, waste book, and ledger; there is, also, a fourth entry in the customer's pass book, which is a record of sums paid in and drawn out by Messrs. J. Brown & Co. All these books must agree and care is taken to have a daily examination of the various entries.

We thus have a series of debit and credit entries, the customer's account is credited and the various other accounts are debited.

The Clearing House is debtor for £9,000, and the Walk Department, which collects all cheques upon non-clearing bankers, debtor for £400.

Cheques drawn upon the Bank of England are sent to that institution for the credit of the bank; there is a ledger account kept, so that the cheque for £100 is debited.

Paid Cash Book.

With regard to the cheque for £100 drawn upon the house, it is entered in the paid cash book, and subsequently debited to the customer's account. Bank of England notes are entered in the note cash book; gold and silver for £300 in the money book. At the close of business all these various books must agree, in fact the totals of the subsidiary books equal the totals of the cash books.

We will now consider the paid or debtor side of Messrs. Brown & Co.'s account when a series of cheques are drawn. The firm may require cash to pay wages; a clerk is sent to the bank with, say, a cheque for £200, and receives £150 in notes and £50 in gold. A cheque for £1,000 is given to a customer who has an account with a clearing banker. This cheque is paid through the Clearing House, the effect being to diminish the Bank of England balance by that amount. Another cheque for £100 is paid to a firm which has an account with Messrs. Brown & Co.'s bankers.

With regard to the first-named cheque, the paying cashier makes an entry in his book, as follows :—

PAYING CASHIER'S BOOK.

Total			Name	Numbers.	Amount of Notes.			Money.		
200			J. Brown & Co.	36506/16 = 11/10 42960/7 = 8/5	150			50		

This cheque is then given to the clerk in charge of the paid cash books. As there are cheques being paid through different channels the book is sub-divided into three divisions as follows :—

PAID CASH BOOKS.

Name.	Waste Book.	Walks.	Paid cashiers.
			£200

The final entries are made in the ledger as follows :—

Date.	Particulars.	Debtor.	Creditor.
1904 Jan. 1.	Cash	200	10,000
	Smith & Co.	100	
	Evans & Co.	1,000	

FINAL ENTRIES LEDGER—*continued.*

Debit Balance.	Credit Balance.	Days.	Interest Debtor.	Interest Creditor.
	9,800			
	9,700			
	8,700			

It will be observed that pages of the ledger are ruled in nine divisions or columns, and that the daily balance which is either creditor or debtor is carried out after each entry.

The last two columns are for the purpose of calculating interest either credit or debit, for example, if an account is overdrawn, say

Interest Columns.

for £100 for a period of 9 days, the amount to be extended would be £900, and this is continued until the end of the month, or quarter, when the column is added up ; the total amount of interest to be charged is one day's interest on this sum.

Books are required to make the necessary entries for bills of exchange, which are either left for collection, designated short bills, bills discounted, or acceptances. With regard to short bills, they are entered in a ledger, which records under separate headings the name of the customer and particulars of the bills lodged for payment.

Bills of Exchange.

J. BROWN & Co.

Date.	When due.	Amount.			Acceptor.	Dr.			Cr.			Balance.		
1904.														
Jan. 1.	Mar. 4	30			Evans & Co.									
	June 4.	50			W. Smith.									
	July 5	70			I. Tompkins.				150			150		

The bills would also be entered in a Bills Receivable Book which gives particulars of all bills received for collection as follows :—

BILLS RECEIVABLE.

No. of Bill.	Date when lodged.	Drawer.	Acceptor.
1	1904.	J. Brown & Co.	Evans & Co.
2	Jan. 1.		W. Smith.
3	,,		I. Tompkins.

BILLS RECEIVABLE—*continued.*

Where Payable.	Date of Bill.	When due.	Amount.			When credited.
Union of London & Smith's Bank.	Jan. 1.	Mar. 4.	30			
Glyn, Mills & Co.		June 4.	50			
Lloyd's Bank.		July 5.	70			

The total of the Bills Receivable Book represents the amount of bills received for collection on behalf of customers ; if necessary an account can be opened in the impersonal ledger showing the total amount received as short bills.

Diaries.

In order that bills may be presented for payment at maturity, they are entered in diaries under their due dates as follows :—

MAR. 4, 19. ..

Ledger Folio.	Name of Acceptor.	Folio.	Name of Customer.	Amount.		
170	Evans & Co.	96	J. Brown & Co.	130		

It will be noticed that there are two numbers inserted ; the first is the ledger folio, and is inserted when the bills are credited from the diaries direct into the ledger. The second is the number of the corresponding entry in the bill ledger. As bills are credited direct from the diaries into the ledger and the cash books, if they were not presented at maturity the books of the bank would not agree.

Bills Discounted.

The same methods are adopted with bills discounted for customers : they are entered in the discount ledger, which is an ordinary one with the name of the customer. Bills are credited when discounted, and as they mature the account is debited. The following is a specimen of the ledger ;

J. BROWN & Co.

Date.	Acceptor.	Date when due.	£.	s.	d.	£.	s.	d.	Date	Acceptor.	Date when paid.	£.	s.	d.	£	s.	d.

The book-keeping is identical with that already explained, viz., by the use of diaries, so that the bills may be duly presented at maturity. When a large number of bills are discounted a separate cash book is utilised, and only the totals are entered in the journal or the general cash book. As the bills mature the totals of the diaries are entered in the cash book, and the total debited in the journal. The effect of the transaction is that cash is credited and bills discounted debited.

Discount Day Book.

The discount day book is utilised for the purpose of showing the interest received for bills discounted. It is ruled in columns as follows :—

DISCOUNT DAY BOOK.

No	Name.	Amount.			When due.	Number. of Days.	Interest.		

DISCOUNT DAY BOOK—*continued.*

Rebate Days.	Rebate.			Total of Principal.			Total of Interest.			Rate.

With regard to bills left for collection, they represent liabilities, but it is not usual to show the amount in the balance sheet ; on the other hand bills discounted represent assets, and must therefore be taken into account.

The last division of bills are those already described, viz., acceptances, which are liabilities because the bank accepts them on behalf of country and foreign correspondents. When a correspondent advises that bills have been drawn they are entered in the advice book as follows :—

ADVICE BOOK.

Names.	No.	Term.	Due Date.	When paid.	Amount.		
					500		

The bills are also entered in the advice diary book under the due dates, which is similar to the diaries for bills for collection and discount.

ADVICE DIARY BOOK.

No. of Bill.	Advice.			Discharged when accepted.			
	500			500			

When bills are accepted, they are discharged in this book in the column provided for the purpose. The bank having received advice of bills, they are left for acceptance by the holders. It is necessary to have a complete record of the transactions because they represent liabilities, which must appear in the balance sheet. For this purpose they are entered when received in the acceptance draft journal, which is in the following form :—

ACCEPTANCE DRAFT JOURNAL.

Date.	Number.	Drawer's Name.	Date of Draft.	Term.	Payee.

ACCEPTANCE DRAFT JOURNAL—*continued.*

Customer's Number.	When accepted.	Due.	Amount.	Amount.	Holder of Draft.
			70		
			50		
			40	160	

Acceptance Ledger. The total amount accepted on behalf of each correspondent is entered in the acceptance ledger, which shows the amount outstanding.

PENNSYLVANIA BANK.

Date.	Due.	Acceptor.	Paid.	Outstanding

Bills are also entered in the Acceptance Cash Book for the purpose of checking entries which must agree with the advice diary cash book. There are two accounts opened in the General Ledger showing the daily transactions on account of bills accepted, viz., Bills Payable Account and Acceptance Account. When bills are accepted by the bank they are debited to the Acceptance Account, and when paid credited to the Bills Payable Account. These accounts are, however, impersonal, and do not alter the cash held, because when acceptances are paid the amount is debited direct to the current account of the individuals or the firms who are the drawers of the bills.

Cash Summary and Transfer Book.

All the transactions of the bank are summarised in a cash summary book before the final entries are made in the general cash book or journal. This is essential because the journal or general cash book cannot be posted until the daily balance is made up. This book is also useful for the purpose of making transfers from one account to another without being entered in the cash books. For example, Wm. Evans & Co. wish to transfer £100 from their drawing to their deposit account, which can be done by a debit and credit entry in the cash summary book; the totals from all the cash books are also entered, because only a summary is required for the general cash book.

The loan transactions of the bank are shown, because it is necessary to have an additional record for the purpose of checking the corresponding entries in the loan and discount ledgers.

General Cash Book or Journal.

We have already referred to the cash summary book as a necessary one for the purpose of check, and also to ascertain whether the cash held is correct. When this has been done the final entries are made in a set of books which are kept distinct, because they do not concern the general work of the bank.

The principal books are the Journal and the Ledger, and the necessary entries are made by means of dockets supplied by the various departments. We have already stated that the accounts of a merchant are similar to those of a bank; we find the same method adopted in the opening entries of the general ledger which comprise assets, liabilities, and profit and loss accounts. The opening entries of the ledger are as follows :—

Opening Entries.

Assets.	*Liabilities.*
Cash	Current accounts, town
Bank of England	„ „ country
Bills discounted	Branches
Promissory notes	Deposit receipts
Money at call	Letters of credit
Reserve	Circular notes
Overdrawn accounts, town	Bills payable
„ „ country	Interest received
Acceptance account	Commission
Stamps on cheques	
Suspense account	
Interest paid	
Charges	
Bank premises	

On reference to the above statement it will be seen that in addition to assets and liabilities there are the profit and loss accounts, such as charges, interest paid, interest received, commission—in fact quite similar to those found in a merchant's office. When these accounts have been opened in the ledger, there is no difficulty in posting the various entries from the general cash book.

It is necessary to refer to the specimen cash book at the end of this chapter in order to see how the various transactions of the bank are posted. The balance of cash at the close of business on the previous day, viz., £88,000, appears on the debtor side and consists of money, notes, and cheques not collected. When the total amount of cash received is entered less the total paid and plus the cash balance of the previous day, the difference should represent the balance at the close of business. If this is not the case, there must be some mistake in the entries, and steps are at once taken to examine the books in order to find out the errors and omissions. The opening entries in the ledger represent the daily transactions of a large banking institution. Only totals of the various accounts are carried into the general cash book, which is done by means of dockets. On reference to the specimen cash book it will be seen that the current accounts are sub-divided into three groups or divisions, viz., town, country, and branch, the last named being the total amount received on account of the branch offices. The Bank of England account is kept quite distinct, since it represents a part of the cash reserve ; it will be noticed that on the debtor side the amount drawn is stated ; this is because the account is always debtor in the bank books. The drawings of this cash reserve show the daily requirements either for notes, gold, or to pay the balance owing to the Clearing House.

Deposit Receipts represent the total amount paid in or drawn out by depositors, in a manner similar to the current accounts, although it is desirable to keep the transactions separate. With regard to bills discounted on the debtor side, we have the amount received for bills maturing on that particular day. On the credit side, the total amount of bills discounted for customers for each day is stated, and duly credited to the various customers' accounts.

The Promissory Notes Discounted is a similar transaction. The entries are identical with those relating to bills discounted. With regard to loans it is usual to give particulars of each transaction separately, and to carry out the total amount in the outer column ; this also applies to money at call, which represents loans to bill brokers against approved securities, such amounts being repayable on demand.

The overdrafts of a bank are classified as debtor accounts, and it is necessary to state the amount in order to balance the books. Letters of credit and circular notes are ledger accounts, and when such documents are issued the customers' accounts are debited and letters of credit and circular notes accounts credited. When the documents issued are returned, the amounts paid are debited to such accounts.

The next item, viz., Bills Payable, represents the daily amount accepted on behalf of country and foreign correspondents. This account is credited when bills are accepted. At the same time the acceptance account is debited. As the bills mature Bills Payable account is debited and acceptance account credited—the balance outstanding represents the indebtedness of the bank.

The next account, viz., Stamps on Cheques represents the amount paid to the Inland Revenue for stamps; when customers' accounts are debited for cheque books this account is credited.

The Interest Received account represents the amount paid by customers for loans, overdrafts, or the discount of bills. The customers' accounts are debited and interest received credited.

It will be noticed that the rebate is stated; this amount increases until the end of the half-year, when it is necessary to deal with the same in the balance sheet. Under the heading of commission, we have the amount received by the bank. This comprises commission on overdrawn accounts, annual charges to customers for the privilege of keeping a drawing account, the amount paid by foreign correspondents and others for the acceptance of drafts drawn by them, and brokerage on account of stocks bought and sold for customers.

The Suspense Account represents all transactions which cannot be dealt with until full particulars are received as to the correct accounts to be either credited or debited. The final entry represents the balance of cash of the previous day, and consists of coin, notes, and cheques, which were in the possession of the bank when the day's work was begun. The double entry system of book-keeping is seen by reference to the credit side of the account, where we notice that cash is creditor for all sums drawn out on the various accounts, which have been explained, the only exception being the Bank of England account, which is credited for all sums paid in. It has been already stated that the Bank of England account is the principal debtor account, because it represents to a large extent the cash reserve of the bank.

The balance of cash at the end of the day's transactions is the last entry, and when this has been entered, the two sides of the account should agree.

The Cash Book gives a detailed statement of the various entries already explained. It will be noticed that cash is debtor for the various sums paid into the bank, with the exception of the Bank of England account, because it is a debtor account.

The following is a specimen of the General Cash Book or Ledger:

SPECIMEN JOURNAL OR

WEDNESDAY,

Cash. *Dr.*

To Town current a/cs. Paid in				£1,242,000	0	0
,, Country do. Paid in				307,000	0	0
,, Branches Paid in ..				1,133,000	0	0
,, Bank of England Drawn out				432,000	0	0
,, Deposit receipts Paid in				4,000	0	0
,, Bills discounted Per diary				31,000	0	0
,, Promissory notes discounted Per diary ..				1,000	0	0
,, Loans Paid off						
A.B. & Co.	£25,000	0	0			
C.D. & Co.	5,000	0	0	30,000	0	0
,, Money at call E. F. & Co.				20,000	0	0
,, Current a/cs. Dr. town				62,000	0	0
,, Current a/cs. Dr. country				51,000	0	0
,, Letters of credit ..				25	0	0
,, Circular notes				25	0	0
,, Bills payable				28,000	0	0
,, Acceptance a/c				71,000	0	0
,, Stamps on cheques ..				20	0	0
,, Interest Received						
On bills discounted ..	5	0	0			
On loans	10	0	0	15	0	0
,, Commission a/c G.B. & Co.				15	0	0
,, Suspense a/c						
				£3,412,100	0	0
To Balance from 6th September ..				88,000	0	0
				£3,500,100	0	0

GENERAL CASH BOOK.

7TH SEPTEMBER, 19....

Cash. Cr.						
By Town current a/cs. Drawn out				£1,189,000	0	0
,, Country do. Drawn out				297,000	0	0
,, Branches Drawn out ..				1,214,000	0	0
,, Bank of England Paid in				430,000	0	0
,, Deposit receipts Drawn out				3,000	0	0
,, Bills discounted; Credited to current a/cs.				4,000	0	0
,, Promissory notes discounted						
,, Loans Granted						
A.L. & Co.	£2,000	0	0			
C.D. & Co.	3,000	0	0	5,000	0	0
,, Money at call M. N. & Co.				50,000	0	0
,, Current a/cs. Dr. town ..				64,000	0	0
,, Current a/cs. Dr. country				66,000	0	0
,, Letters of credit				5	0	0
,, Circular notes				25	0	0
,, Bills payable				71,000	0	0
,, Acceptance a/c				28,000	0	0
,, Stamps on cheques ..						
,, Interest paid on deposit receipts				10	0	0
,, Charges Sundry bills ..				15	0	0
,, Suspense a/c .. .. Re J. W. & Co.				45	0	0
				£3,421,100	0	0
To Balance to 7th September				79,000	0	0
				£3,500,100	0	0

The totals of these various debit entries amount to £3,412,100, and the balance of cash, £88,000, make together a total of £3,500,100, which represents the sum of the debtor side ot the Cash Book. On the credit side of the account we have the totals of sums drawn out and cash is creditor for the amount, except the Bank of England account, which is credited for amounts paid in. With regard to money lent it is practically the same as that drawn out from the bank because the customers' accounts are credited £5,000, and the loan account debited with that amount.

The totals of the credit side amount to £3,421,100, and if the balance of cash at the end of the day's transactions is added, viz., £79,000, the two sides of the account must agree. The various entries in the General Cash Book are typical of the day's transactions in any large joint stock bank.

General Ledger.

The general ledger represents the private ledger of a firm. On reference to the specimen accounts given below it will be noticed that only the totals are posted ; when this is done the ledger folio is inserted on the left hand side of the general cash book. With regard to the accounts of investments, reserve, and bank premises, only the total amounts are given. It is therefore necessary to have subsidiary ledgers in order to show how the totals are made up. The Investment Ledger has separate openings for each stock, and the cost is debited ; it may also contain particulars of the interest or dividends received if there are extra columns ruled for showing the amounts received quarterly or half-yearly. When stocks are sold cash will be increased and investment account correspondingly diminished. If necessary an account may be opened entitled "Profit and Loss on Investments," for the purpose of transferring the balance of either profit or loss on each stock at the market price of the day. Instead, however, of doing this, an amount may be taken from the Reserve Fund for the purpose of writing down the value of stocks to the market price of the day. With regard to bank premises account, it is usual to make provision in the bank-books for depreciation, so that in case of sale the property would realise a much larger sum than that which is stated in the balance sheet.

The following are entries contained in the General Ledger, as posted from the Journal.

CASH.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				88000	
Sep. 7	To	3412100			
	By		3421100	79000	

BANK OF ENGLAND.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				684000	
Sep. 7	To	430000			
	By		432000	682000	

CURRENT ACCOUNTS—*TOWN.*

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					2779000
Sep. 7	By		1242000		
	To	1189000			2832000

CURRENT ACCOUNTS—*COUNTRY.*

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					748000
Sep. 7	By		307000		
	To	297000			758000

BRANCHES.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					1000000
Sep. 7	By		1133000		
	To	1214000			919000

DEPOSIT RECEIPTS.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					263000
Sep. 7	By		4000		
	To	3000			264000

BILLS DISCOUNTED.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				435000	
Sep. 7	To	4000			
	By		31000	408000	

PROMISSORY NOTES.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				13000	
Sep. 7	To				
	By		1000	12000	

LOANS.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				1243000	
Sep. 7	To	5000			
	By		30000	1218000	

MONEY AT CALL.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				718000	
Sep. 7	To	50000			
	By		20000	748000	

CURRENT ACCOUNTS *Dr.—TOWN.*

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				62000	
Sep. 7	To	64000			
	By		62000	64000	

CURRENT ACCOUNTS *Dr.—COUNTRY.*

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				51000	
Sep. 7	To	66000			
	By		51000	66000	

LETTERS OF CREDIT.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					150
Sep. 7	By		25		
	To	5			170

CIRCULAR NOTES.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					100
Sep. 7	By		25		
	To	25			100

STAMPS ON CHEQUES.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				500	
Sep. 7	By		20	480	

BILLS PAYABLE.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					144000
Sep. 7	By		28000		
	To	71000			101000

ACCEPTANCE ACCOUNT.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				144000	
Sep. 7	To	28000			
	By		71000	101000	

INTEREST RECEIVED.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					5000
Sep. 7	By		15		5015

INTEREST PAID.

		Dr.	Cr.	Dr Balance	Cr. Balance
19..				100	
Sep. 7	To	10		110	

CHARGES.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				500	
Sep. 7	To	15		515	

COMMISSION.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					100
Sep. 7	By		15		115

PROFIT AND LOSS.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				50	

SUSPENSE ACCOUNT.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				200	
Sep. 7	To	45		245	

INVESTMENTS.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				1000000	

RESERVE.

19..				400000	

BANK PREMISES.

19..							100000				

BALANCES OF GENERAL LEDGER.

WEDNESDAY, 7th SEPTEMBER, 19....

79,000			Cash		
682,000			Bank of England		
408,000			Bills Discounted		
12,000			Promissory Notes do. ..		
1,218,000			Loans		
748,000			Money at Call and Short Notice		
1,000,000			Investments		
400,000			Reserve		
100,000			Bank Premises		
			Current a/cs Town ..	2,832,000	
			do. Country ..	758,000	
			Branches	919,000	
			Deposit Receipts	264,000	
			Letters of Credit	170	
			Circular Notes	100	
64,000			Overdrawn a/cs. Town ..		
66,000			do. Country ..		
			Bills Payable	101,000	
101,000			Acceptance a/c		
480			Stamps on Cheque ..		
245			Suspense a/c		
50			Profit and Loss		
			Interest Received	5,015	
110			Interest Paid		
515			Charges		
			Commission	115	
£4,879,400				£4,879,400	

With regard to the entries in the General Ledger it will be seen that the various balances at the end of the previous day's work are stated, and if they are extracted the debtor balances must equal those on the credit side of the account.

The first account is that of cash and it will be seen that the totals of the debtor and creditor sides of the Cash Book are posted, which leaves a balance of £79,000, and this verifies the entries. In a similar manner the debit and credit entries of the other accounts are made. It will be noticed that they are arranged in the same order as they occur in the Cash Book.

The balances, either credit or debit, are shown in the outer columns. When the various entries are posted it is necessary to agree the same, which is done by extracting the balances in a Summary Book. An illustration of the same is given after the last entry in the General Ledger. It will be noticed that the debtor balances amount to £4,879,400, and this agrees with the total of the credit balances for a like amoun

The Summary Book, headed Balances of General Ledger, practically represents the balance sheet of the bank, although it is subdivided afterwards into assets and liabilities, and profit and loss accounts. The last named will be subsequently explained.

Profit and Loss.

On reference to the balances of the General Ledger, it will be noticed that if the entries are correctly made, the two sides of the account agree. There are several accounts enumerated which are known as profit and loss accounts, and the following are shown in the balances, viz.,

Interest received
Commission
Interest paid
Charges.

These are only specimen accounts, because in a large bank we find others, such as bad or doubtful debts, interest on investments, rent and taxes, overdue bills. In order to close the books at the end of the half-year, it is necessary to classify the same in two divisions, viz.:

PROFIT.

Interest received
Commission
Interest on investments
Profit and loss, Cr.

LOSS.

Interest paid
Overdue bills
Profit and loss, Dr.
Rent and taxes
Charges.

In addition to the above-named, adjusting entries are required for rebate, which is interest received on bills discounted, and also interest on deposit receipts not paid at the end of the half-year.

With regard to the rebate, the actual amount received is deducted from the profits, the amount received during the half-year is debited and the amount of the previous half-year credited. In order to show the interest due on deposits, an account designated adjusting interest is opened for this purpose, and after the half-yearly balance sheet is prepared, the entries are reversed by crediting interest paid and debiting the adjusting interest account. The balance of profit and loss is carried to dividend account for the purpose of being divided amongst the shareholders. From the specimen general ledger given we get the following statement of profit and loss.

PROFIT AND LOSS.

To Interest paid ..	£110	By Interest received ..	£5,015
,, Charges paid ..	515	,, Commission ..	115
,, Rebate	—	,, Rebate ..	—
,, Profit and loss ..	50	Profit and loss ..	—
	£675		
Balance	4,455		
	£5,130		£5,130
		By Balance of Profit and Loss	£4,455

This account appears in the General Ledger. It is necessary to make the closing entries of the various accounts enumerated by either debiting or crediting, as the case may be, so that the impersonal accounts such as charges, interest paid, interest received, and commission are closed, the balances being then transferred to profit and loss. The account of rebate, however, remains, because it represents undivided profits, viz., interest received from the discount of bills. The balance of profit and loss, as already stated, is transferred to dividend account.

Closing Entries.

It is necessary to show at the end of each half-year the amount owing to or by the bank for interest either on current accounts, past due bills, or on deposit receipts, because such liabilities must appear in the balance sheet.

For this purpose an Adjusting Account for Interest is opened in the General Ledger, and all sums due are credited to this account. In the same manner interest to be. paid is debited.

At the same time the accounts Interest Received and Interest Paid are either credited or debited.

In the following half year reversing entries are made, in order to show the actual amounts which have been received or paid.

An example of another Impersonal Account is Indorsements on Bills Sold, an account which represents a liability of the bank in consequence of bills being indorsed when received by correspondents for sale in the market. When such bills mature a reversing entry is made by crediting Indorsements on Bills Sold and debiting Bills Sold, which is a corresponding account in the General Ledger.

When bills discounted are not paid at maturity it is necessary to open an impersonal account entitled Bills in Suspense, where the amount remains until the bills are paid when the customer's account is debited and Bills in Suspense account credited.

Branch Returns.

The present system of large banks with a great number of branches would be somewhat difficult to manage without accurate returns weekly, monthly, or half-yearly, of all the transactions which take place at the branches. The relation between the head office and a branch office is somewhat similar to that of a customer who has a current account.

At the head office there is an account opened for the branch, which we will designate Branch B, and the balance of cash, if any, is held on behalf of the said branch. This account is either debtor or creditor—if the advances at the branch exceed the deposits, the account would be the latter. When a branch requires money or bank notes, the head office debits the account, and a similar entry of the transaction takes place at the branch establishment.

The advantages of the system are obvious, since it represents the organisation of capital which can be transferred from one part of the country to another, and is therefore of immense service to the trading community.

Advantages of Branches.

There are a large number of transactions taking place between the head office and the branch which are shown in the cash account; thus Branch B wishes to transfer a sum of money to Branch X, which can be effected by the head office crediting X and debiting B. Each branch has a pass book which records the various entries. It is desirable to check the same daily in order to ascertain whether the entries are correct. The book-keeping of a branch is similar to that of the head office, because a General Cash Book and a Ledger are required. On referring to the forms at the end of this section it will be seen that instead of a cash reserve at the Bank of England, it takes the form of a cash balance at the head office. This is the last entry in the journal. When the branch requires notes or money the balance is reduced by means of debit and credit entries.

Closing Entries.

At the end of the half-year closing entries, as already explained, must be made, because the balances of the various impersonal accounts which constitute profit and loss require to be eliminated. This is effected by transferring such accounts to profit and loss account. If reference is made to the same in the specimen given below it will be seen that the balance after making the necessary closing entries is £3,775, which amount must be transferred to the head office. When this has been done the account is closed. It will be noticed that the balance owing to the branch is thus reduced from £102,380 to £98,605.

The return from the branch is in reality an ordinary balance sheet with the profit and loss accounts eliminated. Other returns sent to the head office are statements of what has been done during the week, the month, or the half-year. For example, we have statements of the bills discounted with full particulars of the drawers and acceptors, and the amount under discount for each customer.

The amount of loans and overdrafts is also given, with particulars as to the security lodged against the same. In the same manner the amount of deposit receipts is stated with particulars as to new accounts and withdrawals during the week.

A return is also made of current accounts with the full names and addresses of the customers, and the names of the persons by whom they are introduced. If any transactions have taken place on nominal or inoperative accounts, the particulars must be given on a separate form.

The various rates of interest charged on loans and overdrafts and allowed on deposits are also shown.

INTEREST CHARGED AND ALLOWED DURING THE WEEK.

Interest Charged.	
Bills discounted	4%
Overdrawn accounts	5%
Interest Allowed.	
Current accounts	1%
Deposits at call	1½%
Deposits at notice	2%
,, Fixed 3 months	2½%
,, ,, 6 ,, ...	2¾%
,, ,, 12 ,, ...	3%

The returns from a branch bank to the head office may be summarised as follows:

(1) A debtor and creditor statement of the General Ledger balances at the date of making the return.

(2) An abstract of various transactions, or a statement as to some of the most important accounts.

(3) An abstract of the money lent and deposited. The former embraces loans, discounts, advances on short bills, and overdrafts and the latter the current and deposit accounts.

(4) A list of overdue bills, with particulars.

(5) A statement of the interest received and paid.

(6) An abstract of the Charges Account.

Returns from Branch Bank continued on p. 248.

The following are specimens of the Branch General Cash Book and Ledger:

GENERAL CASH BOOK.

TUESDAY,

Cash. *Dr.*

To Current accounts Paid in				£285,000	0	0
,, Deposit receipts Paid in				1,000	0	0
,, Bills matured Per diary				9,000	0	0
,, Promissory notes Per diary						
,, Loans Paid off						
Wm. Jones	£500	0	0			
Evan Gordon & Co.	1,000	0	0	1,500	0	0
,, Overdrawn accounts				3,080	0	0
,, Bills in suspense ..						
,, Suspense accounts						
,, Interest received ..				10	0	0
,, Commission ..				25	0	0
,, Stamp account ..				5	0	0
,, Rent account						
,, Profit and loss						
,, Head office ..				40,000	0	0
				£339,620	0	0
Balance from 29th June				30,890	0	0
				£370,510	0	0

30TH JUNE, 19....

Cash. *Cr.*

By Current accounts Drawn out				£291,000	0	0
,, Deposit receipts Drawn out				3,000	0	0
,, Bills discounted ..				2,000	0	0
,, Promissory notes discounted						
,, Loans Granted						
W. Evans & Co. ..	£700	0	0			
John Sharp ..	300	0	0			
Wm. Brown & Co.	2,000	0	0	3,000	0	0
,, Overdrawn accounts				3,500	0	0
,, Bills in suspense						
,, Suspense accounts						
,, Past due bills						
,, Interest paid ..				5	0	0
,, Charges				5	0	0
,, Stamp account ..						
,, Rent account ..						
,, Profit and loss ..						
,, Head office ..				38,000	0	0
				£340,510	0	0
Balance to 1st July: notes £15,000; coin 5,000; Drafts 10,000				30,000	0	0
				£370,510	0	0

(7) A statement of debtor balances, on current accounts, with particulars.

(8) A return of stamped forms of drafts and also the amount of deposit receipts issued or cancelled during the week and the balance in hand.

With regard to the Head Office Account it is necessary that the account at the branch bank should agree at the end of the half-year with that of the head office. For this purpose an account is opened entitled Amounts in transit, and any amount outstanding is debited to that account. On the following day the entries are reversed.

A careful examination of the forms at the end of this chapter will enable the student to understand the method of branch book-keeping.

It will be noticed that the accounts are very similar to those of the Head Office Accounts, except that such accounts as Investments, Premises, Capital, Reserve, Letters of Credit, Circular Notes, Acceptance Account, Money at Call, and Bank of England do not appear. These accounts for the most part represent the financial operations of the bank which are controlled by the directors and the general manager.

It is desirable to extract the balances daily from the general ledger in order to ascertain whether the entries have been correctly made, and if they have been the debtor and the creditor sides of the accounts should balance. According to the principles of double entry this must be the case, and, as already explained, the books of a bank are kept on this principle.

It is not necessary to explain in detail the various entries in the Cash Book and General Ledger, but it will be noticed that the balance of cash, viz., £30,000, comprises notes, coin, and drafts. This is entered in detail for the purpose of agreeing the books, which show the totals of such articles, but in the General Ledger only one amount, viz., £30,000, is seen.

There is no difficulty in following the entries from the Cash Book to the Ledger, as they are similar to those already explained.

The Head Office Account shows a debtor balance of £98,605, which represents the sum owing to the branch

The Profit and Loss Account shows the final entries for the half-year and the balance of profit, £3,775, is transferred to the Head Office Account and reduces the balance of the branch to £98,605.

GENERAL LEDGER

CASH.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				30890	
June 30	To	339620			
	By		340510	30000	

CURRENT ACCOUNTS.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					900000
June 30	By		285000		
	To	291000			894000

DEPOSIT RECEIPTS.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					50000
June 30	By		1000		
	To	3000			48000

BILLS DISCOUNTED.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				200000	
June 30	To	2000			
	By		9000	193000	

PROMISSORY NOTES.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				6000	

LOANS.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				609000	
June 30	To	3000			
	By		1500	610500	

OVERDRAWN ACCOUNTS.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				3080	
June 30	To	3500			
	By		3080	3500	

STAMP ACCOUNT.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				200	
June 30	By		5	195	

INTEREST RECEIVED.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					10000
June 30	By		10		10010
	To P. & L.	10010			

INTEREST PAID.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				2000	
June 30	To	5		2005	
	By P. & L.		2005		

CHARGES.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				5000	
June 30	To	5		5005	
	By P. & L.		5005		

COMMISSION.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..					950
June 30	By		25		
	To P. & L.	975			975

SUSPENSE ACCOUNT.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				200	

RENT ACCOUNT.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				200	
June 30	By P. & L.		200		

HEAD OFFICE.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19..				104380	
June 30	To	38000			
	By		40000	102380	
	By P. & L.		3775	98605	

PROFIT AND LOSS.

		Dr.	Cr.	Dr. Balance	Cr. Balance
19...					
June 30	By Commission		975		
	By Interest recd.		10010		10985
	To Charges	5005			
	To Interest paid	2005			
	To Rent a/c	200			
	To Head Office	3775			3775

BALANCES OF GENERAL LEDGER.

TUESDAY, 30th JUNE, 19....

Dr. Balances		Cr. Balances
30,000	Cash	
193,000	Bills Discounted	
6,000	Promissory Notes, do. ..	
610,500	Loans	
	Current Accounts	894,000
3,500	Overdrawn do.	
	Deposit Receipts	48,000
195	Stamps	
200	Suspense a/c	
	Interest Received	10,010
2,005	do. Paid	
	Commission	975
5,005	Charges	
200	Rent a/c	
	Profit and Loss	
102,380	Head Office	
952,985		952,985

CLOSING ENTRIES.

30th June, 19....

Cash	Cr.		
To Charges	5,005		
,, Interests Paid	2,005		
,, Rents a/c	200		
,, Profit and Loss			
Commission	975		
Interest Received	10,010		
,, Head Office—Profit and Loss ..	3,775		
	21,970		

CLOSING ENTRIES.

30th June, 19....

Cash	Dr.		
By Commission	975		
,, Interest Received	10,010		
,, Profit and Loss			
Charges	5,005		
Interest Paid	2,005		
Rent a/c	200		
Head Office	3,775		
	21,970		

CLOSING ENTRIES OF GENERAL LEDGER.

30th June, 19....

30,000			Cash			
193,000			Bills Discounted			
6,000			Promissory Notes do. ..			
610,500			Loans			
			Current Accounts	894,000		
3,500			Overdrawn do.			
			Deposit Receipts	48,000		
195			Stamps			
200			Suspense a/c			
98,605			Head Office			
942,000				942,000		

CHAPTER XIV

GLOSSARY

Acceptance.—This term signifies that the drawee named in a bill of exchange has assented to the order of the drawer by writing his name on the face of the bill. It is not necessary that the word "accepted" should be added. The drawee by signing the bill signifies that the payment of money only is implied. The term is also used to designate a bill of exchange itself, and the name is commonly used in the money market. Bank acceptances are bills of exchange accepted by various banking institutions, and represent documents drawn by country and foreign banks upon their agents in London or elsewhere.

Acceptor.—The person who accepts a bill of exchange drawn upon him. Until he has signified his assent to the order of the drawer by adding his signature to the bill he is called the drawee. No liability upon a bill of exchange attaches to a person who is the drawee until he has become an acceptor, and then he is the first person to whom application must be made for payment.

Accommodation Bill.—A bill of exchange, known in the market by such names as "fictitious bill," "kite," or "windmill," which is drawn, accepted, or indorsed without any consideration being given for it. So long as no value is given for the bill no holder has any right of action upon the instrument against any person whose name appears thereon.

Account.—A formal statement relating to money, goods, services, or values, showing the position of affairs existing between individuals or firms. A banking account is a debtor and creditor statement which shows the financial relationship existing between a banker and his customer.

Account, Current.—A statement showing particulars of transactions which have been carried on between persons or firms for a certain definite period. The current account of a customer with a bank shows the sums of money which have been deposited by the customer and those which have been drawn out by him. It is the personal account entered in the Ledger of the bank. All the items of such an account are stated in detail.

Account Payee.—These words are sometimes written across the face of a cheque, and signify that the proceeds of the cheque are to be credited to the account of the person named as payee. The words have no legal import, and the negotiability of a cheque is in no way limited by them. There is no provision in the Bills of Exchange Act as to such a crossing.

Account, Suspense.—Owing to various causes debits and credits sometimes arise which cannot be entered at once to any particular account. The items are temporarily entered into an account, known as a suspense account, until such time as they can be transferred to their proper places.

Act of God.—A term generally met with in charter parties and bills of lading, which signifies some unforeseen accident or natural cause which could not have been prevented by any reasonable foresight. No person is legally liable for any loss arising through an Act of God.

Ad Valorem.—A Latin phrase signifying according to value. A customs *ad valorem* duty is a percentage charge made upon the value of certain goods, and not upon their weight or quantity. An *ad valorem* stamp duty is a duty payable in respect of certain documents, and varies with the value of the subject matter dealt with by the document.

Administrator.—The person to whom letters of administration of the estate of a deceased person are granted, when the deceased has either failed to make a will, or has made a will and named no executor therein.

Advances.—In banking, loans made to customers by banks against securities lodged by the customers with the banks.

Advice.—Information or instruction ordinarily communicated by letter. Thus, an advice is generally sent by one banker, or merchant, to another, to inform him of the drafts or bills drawn upon him, with full particulars of their amounts, dates, and the persons to whom they are payable. The document sent, which is often called a "letter of advice," prevents mistakes, and at times detects forgeries ; for, when bills are presented for acceptance or for payment, either can be refused for want of advice

After Date.—A phrase often written on bills of exchange, meaning after the date of the bill.

After Sight.—These words are sometimes met with in connection with bills of exchange, and signify after having been presented to the drawee for acceptance. The acceptor must insert the date of his acceptance upon an after sight bill, in order that the holder may be aware of the date upon which it becomes payable.

Allonge.—A slip of paper attached to a bill of exchange, providing space for additional indorsements when the back of the bill itself is covered with the names of indorsers. Being regarded as a part of the original bill it needs no stamp. Some of the foreign codes require that the first indorsement on the allonge shall commence on the bill itself and end on the allonge. This is intended as a precaution against fraud ; otherwise an allonge might easily be taken from one bill and attached to another.

Allotment.—When a new company comes into existence the directors distribute the stock, shares, debentures, and bonds of the company amongst individuals who have applied for the same, and such distribution is known as an allotment. No allotment can now be made by any company unless the provisions of the Companies (Consolidation) Act of 1908 are strictly complied with.

Alloy.—A body resulting from the union of two or more metals, the union being almost invariably brought about under the influence of a high temperature. Gold and silver are neither of them hard enough to be used as coins in their pure state. A small quantity of copper is added to each, and the alloy thus formed is the material used in the manufacture of coins.

Annuity.—A sum of money payable yearly during a specified time, or during the lifetime of a certain individual, or in perpetuity.

Arbitrage.—The name applied to the calculation of the relative simultaneous values of any particular stock on the market, in terms of the quotations on one or more other markets, and to the business founded on such calculations. In the strict sense arbitrage may be defined as a traffic consisting of the purchase, or sale, on one Stock Exchange, and simultaneous, or nearly simultaneous re-sale, or re-purchase, on another Stock Exchange of the same amount in the same stocks or shares. The chief subjects of arbitrage are Government stocks, British consols excepted, and dealings in bullion, coin, and bills, the last two falling principally within the business of bankers.

Arrangement, Deed of.—A deed conveying property to a trustee or trustees for the payment *pro ratâ* of the debts owing by an insolvent debtor. The object of the deed is to prevent the publicity and trouble of bankruptcy proceedings. The deed must now be registered under the Deeds of Arrangement Act, 1914, and it is also chargeable with an *ad valorem* stamp duty of £1 per £1,000, or fraction thereof, with a maximum of £5, payable upon the value of the property passing, or the amount of the composition which is to be paid.

Articles of Association.—The rules and regulations under which the business of a limited liability company is carried on. The powers of the directors and their qualifications are set forth in this document. The articles are controlled by the Memorandum of Association, which defines the purposes for which the company is formed. The articles cannot be altered except by a special resolution of the shareholders, and a company cannot contract itself out of its power to make alterations. When a company opens an account with a bank it is necessary for the banker to inspect the Articles of Association, together with the Memorandum of Association and the Certificate of Incorporation, in order to learn what are the powers of the directors as to financial matters. For example, if the directors borrow money to an extent which is not permissible their act is *ultra vires* and the company is not liable to repay the same.

As per Advice.—A phrase frequently written upon a bill of exchange. Its meaning is that notice has already been sent to the drawee that the bill which he now receives would be drawn upon him.

Assets.—The sum total of the property belonging to a firm or an individual. The assets of a bank consist generally of cash, investments, loans, and the various kinds of property held as securities.

At Sight.—Bills of exchange are sometimes drawn at sight, and when so drawn are payable on demand, no days of grace being allowed. (Compare *After Sight.*)

Attorney, Power of.—A formal document, by which authority is given to one person to act for, or on behalf of another. In business such a document is frequently used to obtain payment from persons living in remote districts, or in foreign countries, without the necessity of the creditor appearing in person. Other kinds of authority include such things as signing cheques, buying and selling stocks or shares, managing estates, etc. A power of attorney is made by deed and requires a stamp of ten shillings. The following, however, are exceptions and the duty is lighter :

	s.	d.
Power to receive prize-money or wages	1	0
Power for sale, transfer, or acceptance of any Government funds not exceeding £100	2	6
Power for receipt of dividends or interest of any stock, if for one payment only	1	0
Power for same in any other case	5	0
Proxy to vote at a meeting		1

Audit.—An examination of the accounts of a firm or an individual for the object of ascertaining whether the statements as entered in the books of the firm or the individual are correct. In a bank there is a continuous audit of cash and bank notes, as well as of bills of exchange and securities which are held on behalf of the bank or of its customers. The half-yearly audit is certified by an auditor, who, in accordance with the Companies Act of 1900, is a recognised officer of the company. He has the right of access at all times to the books and accounts and vouchers of the company, and the directors and other officers are bound to supply such information as may be required by him. The auditor signs the balance sheet, stating that his requirements have been complied with, and that in his opinion it is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as shown by their books. The report is read before the company in general meeting.

Autumnal Drain.—A term used to express the withdrawal of gold from the Bank of England in the autumn, caused principally by currency requirements in connection with the in-gathering of the harvest.

Average.—The original meaning of the word is damage or loss at sea, and occurs in bills of lading, charter parties, and marine insurance policies. It has come to signify the proportionate distribution amongst shipowners and underwriters of the loss which has been sustained. General average occurs when a sacrifice of property has been made for the general benefit of the ship's cargo and freight, and in such cases each person interested has to contribute for such loss in proportion to the value of the property which is protected by such an act of sacrifice. Particular average signifies loss to the ship or cargo which is not for the benefit of all parties, or which has arisen through accident. Such loss remains where it falls, and must be borne by the owners of the ship or cargo, or by the underwriters if insured against.

Backwardation.—There is said to be a backwardation on securities when they can be bought cheaper for the account than for money. The term is also used to represent the rate of interest, either of so much per share, or so much per cent., charged or allowed for carrying forward a bear transaction to the next settlement.

Balance.—In banking accounts and commercial statements the balance is the difference between the two sides of an account, or the sum required to make the debtor and creditor sides equal in amount. In the weekly report of the Bank of England the difference between the assets and the liabilities is called the "rest," which consists of the reserve fund and the undivided profits.

Bank.—This word is derived from *banco*, a bench, which was used by Italian merchants for the purpose of exchanging the coins of various countries. The modern word signifies an institution for the deposit of money, either for the purpose of receiving interest, or for future requirements. In order to carry on its business it is necessary for a bank to possess sufficient capital so that sudden demands for cash may be met. There are three classes of banks, viz., private, joint-stock, and chartered. The first-named are composed of firms or individuals; the second are formed under the Companies Acts, the capital being subscribed by shareholders; the third possess special powers granted to them by the Government. The Bank of England is the most important institution of this kind. The main business of a bank consists in keeping the accounts of customers and in lending money at a profit.

Bank Bill.—A bill of exchange issued or accepted by a bank.

Bank Holidays.—Certain days appointed as holidays by the Act of 1871. In England and Ireland they are Easter Monday, the Monday in Whitsun week, the first Monday in August, the 26th December (if a week-day), and any other day appointed as such by Royal Proclamation. In Scotland the following days are statutory bank holidays: New Year's Day, Christmas Day (or, if either of these falls on a Sunday, the next following Monday), Good Friday, the first Monday in May, and the first Monday in August. Days appointed by Royal Proclamation as bank holidays apply to Scotland as well as to England and Ireland.

Bank Note.—A promissory note issued by a bank and payable to bearer on demand. The privilege of issuing bank notes is exclusively reserved to the Bank of England for the city of London and within a circle of three miles round, and the monopoly within a sixty-five mile radius is only shared by those banks which enjoyed the right of issuing notes up to May 6th, 1844, and have not since lost their privileges. The object is to substitute ultimately Bank of England notes for those issued by private and joint stock banks. No notes may be issued in England for a sum of less than five pounds. In Scotland and Ireland notes may be issued by banks of issue for any number of pounds, from one upwards. Bank of England notes are legal tender, for any amount above five pounds, except at the Bank of England itself or at any of its branches. The Bank, however, is not liable to pay at any branch notes not made payable specially at such branch; but all notes must be paid in London. They are not strictly legal tender in Scotland or Ireland. Country notes are not legal tender, and a country banker is not bound to accept his own notes, even in payment to himself.

Bank Post Bill.—A bill of exchange issued free of charge by the Bank of England or any of its branches, for any sum of money between £10 and £1,000, upon the deposit of the sum for which the bill is required. Such a bill is payable to order at seven days or sixty days after sight at the Bank or at one of its branches. It forms a useful and safe method for the transmission of money from one place to another.

Bank Rate.—The price at which the Bank of England expresses its willingness to grant loans, or to discount bills of exchange. The rate is fixed weekly by the directors of the Bank, and depends largely upon the supply of, and the demand for gold.

Bank Return.—The weekly return issued by the Bank of England, every Thursday afternoon, showing the financial condition of the Bank. The form and the details of the report are prescribed by the Bank Charter Act of 1844. In the return is shown the amount of notes in circulation, the stock and bullion in reserve, and such other matters as enable city men to judge of the state of the Money Market and of its probable tendency.

Bankers' Books Evidence Act.—An Act of Parliament, passed in 1879, by which a copy of the entries contained in a banker's books is made evidence in a court of law, without the necessity of the production of the books themselves.

Bear.—A speculator on the Stock Exchange, who sells stock which he does not possess in the anticipation of a fall, so that when the day of settlement arrives he will be able to buy the same at a lower price and so realise a profit.

Bill of Exchange.—An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinate future time a sum certain in money, to or to the order of a specified person, or to bearer. See Chapter VIII.

Bill of Lading.—A document which acknowledges the shipment of goods and which also contains the terms and conditions agreed upon as to their carriage. It is the document of title to the goods named in it, and the holder of a bill of lading is the person who is, *primâ facie*, entitled to demand them. It is not a negotiable instrument, though the indorsee of a bill of lading is enabled, by statute, to sue for the goods named therein in his own name. It is usual for bills of lading to be issued in sets, in order to provide against loss, and it is important that if a loan is granted by a banker against such security the whole of the sets should be in his possession.

Bill of Sale.—A document under seal which passes the right and the property in chattels from one person, called the grantor, to another, called the grantee, in consideration of a loan of money. The chattels, etc., remain in the possession of the grantor although the property has passed to the grantee. In order that they may be legally binding bills of sale must be drawn up in a special form, registered within seven days of their execution, and re-registered every five years unless they are satisfied. Bills of sale are either absolute or conditional. The former are governed by the Bills of Sale Act of 1878, the latter by the Act of 1882. No bill of sale under the latter Act is valid if the consideration is less than £30.

Bill Broker.—A person who is engaged, as an intermediary, in the purchase and sale of bills of exchange and promissory notes. He sells bills for those drawing on foreign countries, and buys bills for those remitting to them. In order to conduct his business he generally borrows capital from a bank at a low rate of interest, and is thus able to discount bills at a profit. A dealer in foreign bills is generally called an exchange broker.

Bimetallism.—The system of currency based upon a double standard, gold and silver, as distinguished from that based upon a single standard, which is known as monometallism. England has been a monometallic country, with a gold standard, since 1816, and the German Empire since 1873. China is an example of a country using silver as a currency. The countries belonging to the Latin Union are to some extent bimetallic. In order to make such a system effective it would be necessary to open the mints to the coinage of gold and silver, and to allow a debtor to discharge his liabilities in either of the metals at the ratio fixed by law. Although bimetallism is strongly advocated on commercial and political grounds the tendency of the world is towards gold monometallism

Blank Indorsement.—An indorsement without the name of the person to whom a bill of exchange or other transferable document is given. A bill with a blank indorsement is payable to bearer.

Blank Transfer.—A document of transfer with the name of the transferee and particulars left blank. Such transfers are sometimes left with banks as security for loans, together with a stock certificate. An ordinary form of blank transfer is as follows :

I of in consideration of the sum of paid by hereinafter called the transferee, do hereby bargain, sell, assign, and transfer to the said transferee of and in the undertaking called the Company to hold unto the said transferee, his executors, administrators, and assigns subject to the several conditions on which held the same immediately before the execution *thereof and the said transferee does hereby agree to accept and take the said subject to the conditions aforesaid.*

As witness our hands and seals this day of in the year of our Lord One thousand nine hundred and five.

Signed, sealed, and delivered by the above-named in the presence of }

Bond.—A document of obligation, under seal, undertaking to pay a certain sum of money or to perform some specified contract. The word is often used in banks to designate bearer securities, such as foreign government, colonial, and Exchequer bonds. Such documents are generally subject to conditions and become void upon the performance or non-performance of the same. Sometimes the amount inserted as a penalty is double that intended to be secured by the instrument, but in the case of non-performance of the contract only the sum owing, together with interest, or the amount of the damages actually sustained, can be recovered. A bond can be sued upon for twenty years from its date.

Bottomry Bond.—A contract in writing secured by the pledge of a ship by which the borrower agrees to repay a loan with interest on the completion of an intended voyage, but which is released if the ship is lost or falls into the hands of pirates.

Bourse.—A place of business where merchants and bankers meet for the transaction of business.

Broker.—A mercantile agent who is employed to buy or to sell goods or merchandise for other people. He must act strictly in accordance with the instructions given to him, otherwise he forfeits his right to remuneration or brokerage. The particulars of each of the transactions into which he enters are set out in a book, and copies of the entries are forwarded to both parties, that to the buyer being the " bought " note, and that to the seller the " sold " note.

Bull.—A speculator on the Stock Exchange who buys stocks or shares in the anticipation of a rise and postpones the payment for them till a future date. If a rise takes place before the date of settlement the speculator gains, and in many cases the amount of the difference is paid and no actual transfer of stocks or shares ever takes place.

Bullion.—Originally the name of the mint where metals were converted into stamped money. The name is now confined to gold and silver, considered simply as merchandise as distinguished from specie or coin. Remittances between different countries are made in bullion, and this bullion consists of the precious metals of variable fineness, in bars, dust, or what are called groups, that is, mixed coins, metals, or parcels of gold. The task of assaying and weighing, and calculating the value of the bullion is done by bullion brokers.

Buying In.—The purchase of stocks and shares on the Stock Exchange by its official broker when a member has failed to deliver within ten days after the settlement.

Call.—A term used to express an instalment of the capital of a joint stock company which a shareholder is required to pay before his shares are fully paid. The word is also used on the Stock Exchange to indicate a method of dealing in shares whereby the speculator on payment of a certain premium is entitled to purchase the shares at a given price within a certain limited time.

Call Money.—The surplus floating money of bankers and others which is lent to bill-brokers at an agreed rate of interest and repayable on demand.

Carrying Over.—A Stock Exchange expression which signifies the postponement of the settlement of an account from one settling day to another, allowances, contango, or backwardation, being made for the accommodation.

Case of Need.—This is an indorsement sometimes put upon a bill of exchange, naming a person who will guarantee payment for the honour of the drawee, or one of the indorsers, should the bill not be met at maturity. The usual form is, "In case of need apply to A.B." If a person accepts under such circumstances he is the "acceptor for honour," and, if he pays, the "payer for honour."

There is, however, no necessity to pay until the bill has been presented for payment and duly noted and protested The acceptor or payer for honour then becomes the holder for value, and can sue the person for whose honour he has paid the bill, and also all parties antecedent to that person.

Cash Credit.—A credit granted by a bank on security being given —personally or on the guarantee of another person. In the absence of a cash credit a banker will frequently allow a customer of good financial reputation and standing to overdraw his account, and this arrangement serves the same purpose. This last noticed system has been of the greatest service to Scotland, since it has enabled persons of small means to start in business, and by such methods the resources of that country have been greatly developed.

Cash Orders.—These are inland drafts on demand, drawn by traders on traders, and in that respect differing from cheques which are orders drawn on bankers. In most respects cash orders are subject to the laws of bills of exchange. Some banks, however, object to collecting the orders, and others will only do so by making a heavy charge.

Certificate of Incorporation.—The certificate issued by the registrar of joint stock companies, showing that a company is duly incorporated. It is in the following form :

"I hereby certify that the Company, Limited, is this day Incorporated under the Companies (Consolidation) Act, 1908, and that the Company is Limited.

Given under my hand this day of

(Signature)

Registrar of Joint Stock Companies."

Certified Cheques.—Cheques marked by a bank, stating that they are good for the amount drawn. When cheques are so marked it is the custom to accept them as cash, since the bank guarantees that they will be paid.

Certified Transfer.—When a certificate of stock has been lodged with a company it is usual to certify transfers for the amount of stock lodged. Such transfers when duly indorsed by the registrar or secretary of a company are delivered to the buyer of the stock.

Chain Rule.—An arithmetical rule much used in commercial calculations. It consists of the formation of a series of equations which are connected together and dependent, each on the preceding one, like the links of a chain.

Charge, Bankers'.—The total amount of cheques drawn upon a bank and presented by another bank for payment.

Chartered Banks.—Institutions which are constituted by a special charter granted by the Crown.

Charter Party.—An agreement by which a shipowner agrees to place the whole or a part of his ship at the disposal of a merchant upon certain conditions, such as the freight to be paid, the tonnage, the nature of the cargo, and other particulars.

Cheap Money.—Money that can be borrowed at a low rate of interest.

Cheque.—A cheque is a bill of exchange drawn on a banker, payable on demand. It is, in fact, an order addressed to a bank for the payment of money lodged on a current account, and must have a twopenny stamp affixed. A banker must pay all cheques drawn upon him, so long as he has funds of the customer in his hands, or to the extent of any overdraft allowed, unless otherwise instructed by the customer, but notice of death or of an available act of bankruptcy automatically puts an end to the notice to pay. When a cheque bears across its face two parallel transverse lines, with or without the words "and Co.," or the name of a particular bank, it becomes a crossed cheque, and can only be paid through another bank, and if the name of the bank is added then payment cannot be made except through that bank. If the words "not negotiable" are added to a cheque the holder has no better title to it than that person from whom he took it. When a cheque is drawn payable to order the person in whose favour it is drawn must indorse it.

Circular Notes.—Letters or notes issued by banks for the convenience of travellers. Their object is to avoid the necessity of carrying large sums of money from place to place. The banker who issues the notes simply informs travellers where payments may be made to them on the production of the notes. A specimen of the handwriting of the payee is also provided, called a *lettre d'indication*, so that there may be some check upon fraud or forgery. A traveller who presents a note at any of the places named will receive any amount of money he requires within the limit provided for. If the notes are not used the issuer will refund any balance due when called upon to do so. Circular notes are not generally issued for amounts less than £10, although one London bank does issue them for £5 each. There is generally no charge made for the accommodation, as the interest on the amount lodged for the period between the dates of purchase and payment is sufficient to remunerate the banker for his trouble.

Clearing Houses.—Institutions formed for the purpose of facilitating the exchange of cheques and bills of exchange between various banks, so that the balance at the end of a day's transactions is liquidated by one payment. The method of clearing houses is also used when there are large transactions in produce, such as sugar, coffee, and other commodities, so that the ultimate buyer gets possession of the same.

Collateral Security.—A term applied to any secondary, indirect, or additional security lodged with a bank or an individual to insure the repayment of a loan. In the event of non-payment, such security is available without recourse to legal proceedings. But this does not apply to an equitable mortgage. A bill of sale is a good example of a collateral security, as it guarantees the repayment of a loan, and other common examples are delivery orders, title deeds, mortgages, and bonds.

Commandite.—A form of partnership in France whereby the partner contributes a certain amount of capital without taking any part in the management of the business, and is only liable to the extent of capital contributed by him.

Commercial Crisis.—A period of financial distrust brought about by speculation, and leading to a series of failures, so that loans by banks and other institutions are contracted, the effect being to cause a general depression throughout the commercial world.

Compound Interest.—When the interest on a loan is not paid at stated intervals, the amount of the interest is added to the principal, and the new interest is charged on the increased amount. The number of years required for a sum of money to double itself at compound interest is found by dividing the figure 69 by the rate of interest.

Consideration Money.—The amount stated on a transfer as being paid by the buyer to the seller, but when there are several transactions the consideration money may differ, and, according to the Stamp Act, the consideration money paid by the sub-purchaser shall be the one inserted in the deed of conveyance as regulating the *ad valorem* duty. When stocks or shares are taken as security it is usual to insert a nominal consideration of five shillings on the transfer which requires an impressed stamp of ten shillings.

Consignment.—A term used to express the sending of goods from one place to another for a specific purpose. The sender is called the consignor, and the person receiving the goods the consignee. The goods themselves are frequently referred to as a consignment.

Consols.—A contraction of "consolidated funds" and "consolidated stock." In the early part of the eighteenth century the government borrowed large sums of money at different times, and gave as security for the repayment of the same the proceeds of the customs, excise, stamps, and other sources of revenue. A certain portion of revenue was allocated to each part of the debt, and the rate of interest varied considerably. In 1787 all the various funds of the Government which were income were consolidated, and the various classes of the public debt were treated in the same manner, the rate of interest being also made uniform. The consolidated funds are now pledged as a whole for the payment of the interest on the consolidated stock.

Contango.—A Stock Exchange term which signifies the charge made for carrying over stock from one account to another. The buyer is unable to pay for the stock purchased, and arranges with the seller to defer payment until the next settling day. A fictitious sale of the stock takes place at a price which is fixed on the Stock Exchange, called the making-up price, and the buyer has to pay or to receive the difference between the price paid by the buyer and the making-up price. In order that the bargain may be kept open a certain rate of interest is paid for the money employed in the transaction, and this will vary with the demands and requirements of the Money Market. It is the rate of interest thus charged which is the contango. The day for fixing the contango, the second day before settling day, is known as "contango" or "continuation" day.

Contributories.—All persons liable to contribute to the assets of a joint stock company in the event of its liquidation. They include all persons who have sold their shares within twelve months prior to the winding-up of the company, but it is necessary to ascertain whether the existing shareholders of the company are able to pay all the debts before recourse can be had to those who have ceased to be members. But past members will not be liable for any debts contracted by the company after they have ceased to be members.

Convertible Paper Money.—Paper that can be exchanged on demand for its full value in specie at the bank which issues it, for example, a Bank of England note. In order to obtain an issue of bank notes on a sound basis, it is necessary that they should always be payable on demand. The difficulty is to ascertain the exact amount that can be issued so that their value shall remain the same as that of the metallic currency.

Conveyance.—A term applied to express the transfer of property, and also the deed itself by which the property is transferred. In order to be valid the deed must be in proper form and executed by all parties under seal in the presence of witnesses.

Corner.—The method practised on the Stock Exchange of getting into a few hands the bulk of the shares issued by a certain company, and then to demand artificial prices for them, the supply in the open market being altogether unequal to the demand.

Coulisse.—The unofficial market on the Paris Bourse, consisting in the main of high-class firms and arbitrage houses. It is a much larger organisation than the *agents de change*, or official members in the Parquet (the name applied to the sixty official brokers on the Paris Bourse), but it is less responsible. The members are called "coulissiers."

Council Drafts.—Drafts issued by the India Council in London on the Indian Government, and payable in India, at the treasuries of Calcutta, Bombay, or Madras. Such drafts enable the Government to discharge its liabilities in this country, and frequently prevent the transmission of bullion from England to

India, or *vice versâ*. The price at which such drafts are issued is an important factor in the Money Market, and has considerable influence upon the rate of interest.

Counterpart Lease.—A copy of the original lease signed by the lessee and handed to the lessor.

Country Clearing.—The system by which cheques on country banks are sent to London for the purpose of being paid by London agents at the Clearing House instead of being transmitted to the places where they are payable.

Country Notes.—Bank notes issued by country banks and payable on demand. In consequence of bank amalgamations, the number of country bank notes in circulation is rapidly declining, and Bank of England notes are being substituted for them.

Coupon.—A piece of paper attached to a bond representing the interest, which must be cut off and presented for payment. The amount and the date of payment are sometimes stated on the coupon.

Course of Exchange.—This indicates the quotations current for foreign bills, the higher quotations for fine bankers' bills, and the lower for fair mercantile bills. In the majority of cases the rate is quoted in the amount of foreign money given for a sovereign. Thus, the Paris Exchange (short) may be quoted at 25·325, which means that the purchaser of a bill on Paris obtains 25 francs and 32½ centimes for every sovereign he pays here. The more francs he can get in Paris for a sovereign which he pays in London, the more favourable is the exchange to this country.

Cover.—A term applied to money or to marketable securities, such as bonds, scrip, certificates, etc., deposited with a lender as security for a loan, generally with a margin in value, to insure against the risk of loss in the event of the default of the borrower. It is also most commonly applied to the deposit required by stock-brokers before entering into speculative transactions on behalf of a client. Cover is sometimes known as "margin."

Credit.—The lodgment of money in the form of coin, bank notes, bills, and cheques for a customer is designated a credit. It also expresses the financial standing of a firm or an individual.

Credit, Letter of.—A letter addressed by one bank to another bank, or to a firm, requesting that the customer may be allowed to draw the amount stated in the letter. The bank guarantees that the said sum will be repaid by means of a draft or drafts drawn upon the bank. A circular letter of credit is a similar document, except that it is addressed to several banks or to firms which are the correspondents of the bank.

Credit Note.—An invoice which acknowledges the indebtedness of a creditor to the debtor. When goods are returned for any specific purpose in consequence of short weight, breakages, etc., it is usual to issue a credit note for the same.

Crore.—The name given in India to one hundred lacs of rupees. Since a lac is 100,000 rupees, a crore is 10,000,000 rupees. Taking the value of the rupee at 1s. 4d., the English value of a crore is £666,666 13s. 4d.

Crossed Cheque.—A cheque with two parallel transverse lines across its face, with or without the words "and Co." written between them. Instead of "and Co." the name of a particular bank is sometimes inserted. Payment of a crossed cheque cannot be made except through a bank, and, if the name of the bank is added, then through that particular bank.

Crossing.—The act by which an open cheque is converted into a crossed cheque. It consists in drawing the two transverse lines and making the additions thereto, if such additions are considered necessary.

Crown.—The new Austrian gold coin, the weight of 20 crowns being 6·775 grammes 900 fine, the sterling value being 16s. 8d.

Cum Dividend.—When stocks or shares are sold and the buyer is entitled to the dividend that is due or accruing, he is said to have bought cum dividend. If, therefore, stocks are sold cum dividend, the seller must, on receipt of the dividend, hand the same to the buyer.

Cum Drawing.—This term expresses the right of the buyer to receive the benefits of any drawing of bonds which is about to take place.

Cum New.—The right to claim any new shares or stock about to be allotted to shareholders or debenture holders. When there is a premium on a new issue of stock the right is often of considerable value. In order to provide for this contingency a letter of renunciation is sometimes attached so that the allottee can transfer his rights to the buyer of the stock.

Cumulative Preference.—This is a term applied to securities upon which, if the guaranteed dividend cannot be paid in any one year, or any series of years, the dividend accumulates until it can be paid. Such accumulated dividend is entitled to be paid before any other dividend is paid, either on the preference or ordinary shares in any succeeding year, the revenue for any year being first applied to the payment of dividend for the current year, and then to payment of the arrears, commencing with those of the nearest years.

Currency.—The circulating medium of a country consisting of coin, bank notes, and other paper money. Ricardo thus states the requirements of a currency: "A currency may be considered as perfect of which the standard is invariable, which always conforms to that standard, and in the use of which the utmost economy is practised." Scrope says: "Without stability of value, money is a mere fraud."

Currency of a Bill.—The length of time between the date of a bill of exchange and the day on which it matures. When a bill is drawn after sight the currency begins from the date of acceptance.

Current Account.—A term used in banks to distinguish drawing accounts upon which money is lodged and payable on demand.

Day-to-Day Money.—Capital lent to brokers repayable on demand is so designated, and represents the surplus money lent by banks to bill-brokers.

Days of Grace.—The three days allowed on bills of exchange to fix their due date of payment, provided such bills are drawn payable at some time after date. See Chapter VIII.

Dead Account.—A term used to denote the money, stock, or other securities standing to the credit of a person deceased. Also the name of an account which is dormant, and on which no transactions take place. Such an account is transferred to a dead ledger.

Dealer.—A Stock Exchange name for a person who deals in stocks and shares, and who buys or sells the same from or to the brokers.

Dear Money.—Money is said to be dear when the floating supply of capital is scarce, and when advances cannot be obtained, even on good securities, except at a high rate of interest, owing to the pressure on the money market, or a high bank rate.

Debenture.—A document which either creates or acknowledges a charge or mortgage. Debentures are a charge or mortgage upon the undertaking or property of a company bearing a fixed rate of interest, and are either repayable within a fixed term of years or irredeemable during the existence of the company. The person who holds such a deed is called a debenture holder.

Debenture Stock.—Debentures that are usually irredeemable, and transferred by deed of assignment. When such stock is issued it is represented by a trust deed stating what is assigned as security, and a certificate is attached stating that it is a part of the original issue. Debentures can only be transferred in their entirety, but small amounts of debenture stock can be transferred. According to the Companies (Consolidation) Act, 1908, all debentures and debenture stock must be entered in the register kept for the purpose, and must be notified to the registrar of joint stock companies.

Debit.—The left hand side of an account in which everything in the shape of a debt is entered. The term debit is also applied to a form which charges an account with various items, such as interest, postages, collection of cheques, and commission.

Deed.—A written document under hand and seal, which evidences some transaction between parties. For the legal execution of a deed it is necessary that the document should be signed, sealed, and delivered. It also requires stamping, but the stamping may be done within thirty days of the execution of the deed.

Deferred Annuity.—An annuity payable after the expiration of a certain number of years.

Deferred Stock.—A class of stock issued by a company which is not entitled to any dividend until the claims of other shareholders, preference or ordinary, and debenture holders have been satisfied. Founders' shares of joint stock companies are a kind of deferred stock.

Delivery of Bill of Exchange.—The act of a party to a bill of exchange by which it is intended to show that there is a full determination to carry out the contract expressed in it. A bill of exchange is incomplete without delivery. By the Bills of Exchange Act, 1882, it is enacted that "every contract on a bill, whether it be the drawer's, the acceptor's, or the indorser's, is incomplete and revocable until delivery of the instrument in order to give effect thereto."

Delivery Order.—A written or printed document, made out and signed by the owner of goods stored at a warehouse, dock, or wharf, authorising the transfer of such goods to the person named therein. A delivery order is not, strictly speaking, a negotiable instrument, though it is sometimes accepted by a banker as a security for advances made. It must then, however, be lodged at the place named, and the goods concerned thus transferred to the name of the lender. By the Finance Act, 1905, the stamp of one penny is now dispensed with.

Demand Draft.—A bill of exchange, payable at sight, that is, on presentation. It needs no acceptance and no days of grace are attached to it.

Deposits.—Money lodged with a banker at a fixed rate of interest, either as a permanent investment or for some definite period. The account of the same is kept separate from the ordinary or current account of the depositor. Interest is allowed on such deposits, but in London the rate varies with the Bank of England rate of discount, and is usually $1\frac{1}{2}$ per cent. below the official quotation. A deposit receipt is given to the depositor, stating the terms upon which the money has been received.

Deposit Receipt.—The receipt given by a banker acknowledging a deposit of money, and stating the terms upon which it has been received. It needs no stamp. A deposit receipt is not a transferable document, but it has been held to be the subject of a good *donatio mortis causâ.* If such a receipt is issued to more than one person, particulars as to withdrawal and as to the rights of survivors should be indorsed on it at the time of issue, and specimens of signatures taken in the signature book. Great care is required in dealing with payments against deposits, as any irregularity may render a banker liable to pay the money a second time.

Depreciation.—Diminished value. It is applied to a fall in value of stocks and shares, and also to buildings, machinery, and plant, which become of less value in consequence of wear and tear. Depreciation of the coinage and paper money takes place when the coins themselves or the paper is of less value than that expressed upon the faces of either of them.

Discharge.—A bill is discharged if it is paid at maturity by the acceptor, when all rights of action are extinguished, or when the holder delivers it up to the acceptor. Material alteration or intentional cancellation of a bill acts as a discharge.

Discount.—The difference between a sum of money due at a future period and its present value, or a deduction that is made from the amount of a debt that is paid before it becomes due. Discount is generally calculated as interest and deducted from the amount. Thus if a banker discounts a bill of £100, the rate being 5 per cent., he pays the holder £95 for it. As the banker will receive £100 at the maturity of the bill, he will get more than 5 per cent. for the money he has advanced, in point of fact his gain will be about $5\frac{5}{19}$ per cent.

Dishonour.—A bill is dishonoured if acceptance of it is refused, or if it is not paid at maturity. When this takes place notice must be given to all parties to the bill to preserve the rights of the holder

Dividend.—The interest paid to the holders of stocks or shares, or the profits of a company divided amongst its shareholders.

Dock Warrant.—A document issued by a dock company or a wharfinger stating that certain goods therein named are deliverable to a person also therein named or to his assigns by indorsement of the document. In order to obtain delivery of the goods all charges for rent, etc., must be paid. A dock warrant is chargeable with a stamp duty of threepence. Dock warrants are very often deposited with bankers as a security for advances.

Docket.—A summary of a document. A docket is generally made by indorsing the document with the date of receipt, the date of reply (if any), and an outline of its contents.

Documentary Bills.—A set of bills of exchange having the bill of lading, invoice, and policy of insurance attached to them, the latter documents being available in the event of the bills of exchange not being duly honoured at maturity.

Documentary Credit.—The term given to a letter of credit when the latter is issued, on condition that certain named securities shall be deposited as a collateral security for the money advanced.

Dollar.—The name given to a silver coin which circulates in many countries, the principal being the American dollar, which is of the value of about 4s. 1¼d. The silver dollar of the United States weighs 412·5 grains, and the gold dollar 25·8 grains, the fineness of each, in silver and gold, being 900 per mille.

Domiciled Bill.—A bill not made payable at the residence or place of business of the acceptor, but one wherein the place of payment is inserted at the time of the acceptance.

Donatio Mortis Causa.—This is a Latin phrase signifying a gift made in contemplation of death, subject to the condition that the gift shall be void and the subject of the gift returned if death does not take place. Such a gift is evidenced either by the manual delivery on the part of the donor, or by some other person in his presence and at his request to the donee, or to an agent of the donee, either of the property itself which is the subject of the gift, or of the means of obtaining the same. Many disputes have arisen as to what may form the subjects of a valid gift of this description. The gift of a bond, a mortgage deed, and a promissory note or cheque payable to the donor or to his order, even though not indorsed, have been held to be good *donationes*, but receipts for annuities, railway scrip, and the donor's own cheque cannot be transferred in this manner, unless in the case of a cheque it is cashed in the lifetime of the donor. A *donatio mortis causâ* differs from a legacy in that it takes effect from the time of delivery and does not require the assent of the executor.

Double Entry.—A term applied to that system of book-keeping in which two entries are made of every transaction to act as a check and to balance the books.

Draft.—An order by which money is drawn from a bank, and also the money thus drawn.

Drawee.—The person upon whom a bill of exchange is drawn. A drawee does not incur any liability upon a bill until he has signed it, when he becomes the acceptor. (See Acceptor).

Drawer.—The person who draws a bill of exchange or a cheque in favour of another person. The drawer of a bill engages that on due presentment it shall be accepted, and also that it will be paid at maturity, and that if it is dishonoured he will compensate the holder or any indorser who is compelled to pay it, provided that the requisite proceedings on dishonour have been duly taken.

E. & O.E.—Errors and omissions excepted. These letters are often added at the end of an account as a protection in case of wrong entries in the books.

Enfaced Paper.—Promissory notes of the Indian Government, known in the market as "rupee paper," when they bear a notification that the interest upon them can be collected by presenting the notes at the Bank of England, where they are stamped and the payment of interest recorded. Drafts are then issued payable in India, and these are readily bought at current rates by those who have to send out remittances there.

Equitable Charge.—An acknowledgment of a debt or obligation by means of a deposit of securities or of an informal document with an undertaking to execute any formal document necessary to create a legal title to the same if circumstances arise which render such a course imperative.

Equitable Mortgage.—The deposit of title deeds as a securtiy for a loan with or without a written memorandum agreeing to perfect the legal title to the same if necessary. Loans are very frequently granted by bankers upon the security of title deeds which are deposited with them. If the loan is repaid the deeds are returned to the depositor. If not, the banker can enforce the execution of a legal mortgage, or take proceedings for foreclosure.

Equity of Redemption.—The right of a mortgagor to recover mortgaged property upon the payment of the amount of money lent, together with interest and costs. If a mortgagor surrenders this equity of redemption he forfeits all future claim to his property. The value of such an equity as a security is very uncertain, as it depends upon the amount of the charges created at various times.

Exchequer Bills.—Promissory notes issued by the Government, of the value of £100, £200, £500, and £1,000, payable at the expiration of three months, six months, or one year. Tenders for such bills are made at the Bank of England, and the price given is the principal less the discount, which represents the return on the investment. The rates at which such bills are sold is an indication of the value of money in the market. Such bills are a favourite form of investment abroad, and they are sometimes re-sold to foreign firms at a profit on the original price given for them.

Exchequer Bonds.—These are Government promissory notes issued under the same authority as Exchequer Bills, by the Commissioners of the Treasury. They run for a definite period of time, but not exceeding six years, and bear interest at a certain rate per cent. per annum, coupons being attached for the payment of the interest. This interest is at a fixed rate, and is payable half-yearly until the period for which they are issued has expired, when the bonds are redeemable at par.

N.B.—Exchequer bills and bonds are now superseded by Treasury bills and bonds.

Executor.—The person named in the will of a deceased person who takes out probate of the will. This probate entitles him to obtain possession of the whole of the property of the deceased. An executor is bound to administer the estate in accordance with the terms of the will.

Face Value.—The nominal value written or printed upon the face of bonds, notes, stock certificates, debentures, or other similar documents indicating their par value, that is, the amount for which they are issued. The face value is frequently very different from the market value, which may be higher or lower than the face value, at a premium or at a discount.

Fee Simple.—A freehold estate of inheritance absolutely free and at the entire disposal of the owner. It is the greatest estate in land known to the English law.

Finance.—The science regulating money matters. Formerly the word was only used in connection with the management of the revenues of a state. Now it is applied in commerce to the raising of money by subscription and in the employment of it in loans for the carrying out of public or commercial undertakings.

First Class Paper.—A term applied in the Money Market to bills, drafts, promissory notes, and similar documents, which bear the names of well-known houses or financiers as acceptors, or indorsers. Consols, Treasury bills, and Treasury bonds, being guaranteed by the Government, are included under this head.

Floaters.—The name given in the Money Market to bearer securities, which are utilised as cover for advances made by banks to bill brokers.

Florin.—The English two-shilling piece. Also the Austrian silver standard coin, of the weight of 190·53 grains, and a fineness of 900 per mille. No Austrian florins have been coined since 1892, when a gold standard was adopted.

Foreclosure.—The taking of the actual possession of an estate or other thing mortgaged to secure the repayment of a loan. A mortgagee has a right to bring a foreclosure action if repayment is not made. A date is then fixed by the court upon which the money and the interest and costs must be paid, and failing this the mortgagee is entitled to take possession of the estate, the mortgagor being finally shut out from his right of redemption.

Foreign Bill of Exchange.—A bill which is not drawn and made payable within the British Islands, or not drawn within the British Islands upon some person resident therein. If a foreign bill is negotiated in the British Isles it must be stamped as an inland bill, and if it is dishonoured it must be protested and noted by a notary public in order to preserve the rights of the various parties to the bill.

Franc.—The unit of value as well as the money of account in the countries which form the Latin Monetary Union. It is called a lira in Italy and a drachma in Greece. The franc, if coined in gold, would consist of 4·98 grains, of a fineness of 900 per mille. The silver franc consists of 77·16 grains of silver of the same fineness.

Freehold.—An estate held direct from the Crown, and for which no services are due to any feudal lord. At the present day the term is generally applied to estates held in fee simple, that is, those which are, as nearly as land can be, the absolute property of the holder.

Funded Debt.—The permanent debt of the Government which it is under no obligation to repay at any particular time. Consols and the debts due to the Banks of England and Ireland form part of the funded debt of this country.

Garbled Coin.—A term applied to coins which are withdrawn from circulation in consequence of their being worn or defaced. The banks send such coins to the Bank of England, and an allowance is made in proportion to the loss. The coins are ultimately sent to the Mint in order to be melted down into bullion and re-coined.

Garnishee Order.—A notice sent to persons who are owing money to a judgment debtor, or who hold goods belonging to him, warning them not to part with such money or goods. The object of a garnishee order is to prevent the debtor applying such property to his own use instead of paying his creditors. When a garnishee order is served upon a bank, the whole account of the bank's customer who is a judgment debtor is bound, and no dealings can take place with the balance lying at the bank so long as the order remains in force.

Gilt-Edged Securities.—Securities which are considered to be absolutely safe and assured, and upon which the interest due is paid with the utmost regularity.

Gramme.—The unit of weight in the metric system. It is the weight of a cubic centimetre of distilled water at its greatest density, that is, at 4° Centigrade. A gramme weighs rather less than $15\frac{1}{2}$ grains, its exact value in grains being expressed decimally by 15·432349.

Guarantee.—A contract whereby one person undertakes to be answerable for the payment of a debt or the performance of some act on the part of a third person, who must be legally bound to pay the debt or to perform the act. The guarantor is only liable on the failure of the debtor to carry out his agreement. A guarantee, like any other agreement under hand, must bear a sixpenny stamp. The wording of a guarantee is a matter of importance, according as the indemnity is to be in respect of one transaction only, or a limited number of transactions, or to last for an unlimited period.

Guaranteed Stocks.—Stocks upon which the interest, or the principal together with the interest, is guaranteed. Thus a railway company sometimes absorbs a smaller undertaking and guarantees the payment of interest upon the capital.

Guinea.—The gold coin formerly current in Great Britain, first coined in the reign of Charles II., and so called because the gold used was brought from Guinea. By a proclamation issued on the 22nd December, 1717, the guinea was made current at twenty-one shillings, although its true market value was about fourpence less than that sum. The over-valuing of the guinea led to the withdrawal of silver from circulation, and accustomed the English people to the gold standard of coinage, which was finally adopted in 1816. Guineas have not been coined since the last-named date.

Holder of a Bill of Exchange.—The person to whom a bill of exchange is transferred, either directly or by indorsement. The lawful holder of a bill of exchange is called a "holder in due course." The Bills of Exchange Act defines the holder in due course as a holder who has taken a bill, complete and regular on the face of it, under the following conditions: (a) That he became the holder of it before it was overdue, and without notice that it had been previously dishonoured, if such was the fact; (b) That he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

Hypothecation.—The act by which property of any description is pledged or mortgaged. The term "letters of hypothecation" is used in banks to designate documents of various kinds which pledge securities for the repayment of loans.

Impersonal Accounts.—In book-keeping, accounts which deal with things and not with persons, as charges, suspense, salaries, bills sent for collection, profit and loss. It is usual to have a separate ledger for the purpose of recording the entries of such accounts.

Inconvertible Paper Currency.—Paper money which cannot be converted into cash at its face value on demand, but which must be accepted as representing the value printed upon it. When paper money is inconvertible it usually falls in value, since it is uncertain whether the obligation of the issuer will be carried out. In reality the paper is at a discount, though it is often said under such circumstances that gold and silver are at a premium. Whenever a country suspends cash payments the effect is to depreciate the value of bank notes. There is, in fact, a premium on gold.

Indemnity.—A contract for the purpose of insuring against losses which may arise, such as cases of fire or accidents of any character. Banks require a letter of indemnity when it is necessary to guarantee a cheque in consequence of some defect in connection with it, for example, an irregular indorsement. An indemnity is to be carefully distinguished from a guarantee, the legal requirements of the two being very different.

Indorse.—To write on the back of any cheque, bill of exchange, or other document the name of a person named therein, the effect being to assign or to give a receipt in accordance with the terms of the instrument. It has been held that a signature on the face of a bill, purporting to be of the same effect as an indorsement, is a valid indorsement.

Indorsement.—The act of indorsing or writing on the back of a bill of exchange or other document, the effect being to transfer the property in it. If the document is a negotiable instrument, the indorsement, together with delivery, transfers the property to the indorsee. A "blank" indorsement is one which specifies no indorsee, and a bill so indorsed becomes payable to bearer. A "special" indorsement signifies the person to whom or to whose order the bill is to be payable. A "restrictive" indorsement is one which prohibits the further negotiation of the bill or which expresses that it is a mere authority to deal with the bill and not to transfer the ownership thereof. A "qualified" indorsement expressly negatives or limits the personal liability of the indorser. A common form is one to which the words "sans recours" are added. A "conditional" indorsement is one which purports to transfer the bill subject to some condition. The transfer of a bill payable to order by a holder without indorsing it only gives to the transferee such rights as were possessed by the transferor. A forged or unauthorised indorsement is wholly inoperative, and no holder of a bill can acquire any right through the same. A bank is liable if a bill is paid under a forged indorsement, unless it is a bill payable on demand, as, for example, a cheque, or when the payee is a fictitious or non-existent person, or when the person against whom it is sought to enforce payment is precluded from setting up the forgery. The indorsements of a bill may be struck out at any time by the holder, and this striking out, if done intentionally, discharges that indorser and all indorsers subsequent to him from their liabilities on the instrument.

Indorser.—The person by whom a bill of exchange, a cheque, a bill of lading, or other similar instrument is indorsed. To complete the contract a delivery of the instrument is essential. The indorser of a bill of exchange by indorsing it engages that on due presentment it will be accepted and paid, and that if dishonoured he will compensate the holder or subsequent indorser.

Inland Bill.—A bill of exchange drawn and payable within the United Kingdom, or drawn within the United Kingdom upon some person resident therein.

Inscribed Stock.—Stock for which no actual certificates are granted to the holders, but whose names and the amount of the stock they hold are inscribed in a register kept for the purpose, either at the Bank of England, the office of the Crown Agent for the Colonies, or some other bank where the stock was issued. Such stock can only be transferred by the holder, or by his representative appointed by power of attorney, signing the register that he has assigned his right to some other person.

Interbourse Securities.—Securities the loans for which were originally raised simultaneously in different countries. They are dealt in at a fixed rate of exchange, as indicated in the body of the bond. The chief are the Italian, Portuguese, Russian, Spanish, and Turkish loans, but the term has been extended to other securities which are dealt in at various foreign centres.

Interest.—Money paid for the use of money. It is generally calculated at a certain rate per annum. The money lent is called the principal ; the sum per cent. or per hundred agreed upon is the rate of interest.

Interim Dividend.—A dividend declared before the whole of the profits of a company are ascertained. It is usual to provide in the Articles of Association for this contingency, and at the next general ordinary meeting of the company the shareholders are asked to confirm the payment of the same before the declaration of a further dividend.

In Transitu.—A Latin phrase, signifying in the course of transmission, or on the way.

Invoice.—A statement giving full particulars of the price, nature, and quality of goods sold or consigned. It is usual to find the invoice attached to a bill of exchange, together with other shipping documents when goods are either exported or imported.

I.O.U.—An acknowledgment of indebtedness, being the words " I owe you " in an abbreviated form. The following is an example :

"*Sept.* 1*st*, 1905.

To

Wm. Evans.

I.O.U. £10.

"*David Brown.*"

It is merely a memorandum of a debt. The production of an I.O.U. is evidence of an account stated between the parties, but not of the actual amount of money lent to the borrower. It is not a negotiable instrument, and it requires no stamp.

Jobbers.—The name applied to dealers in stocks and shares on the Stock Exchange, who buy and sell the same from and to the brokers who act on behalf of their clients.

Joint Account.—When an account is opened with a bank in the names of two or more persons, it is called a joint account, and no sum of money can be withdrawn without the authority of all such persons.

Journal.—This book is the daily register of commercial dealings, and the entries are classified so that they can be posted or entered in the ledger. It shows clearly what accounts should be credited or debited in that book. The journal is utilised for many purposes in banks ; for example, the general cash book is used for such entries. The securities' journal is a record of all securities left for safe custody or deposited against loans ; from this book the various entries are posted into the ledgers.

Judgment Creditor.—A person who has brought an action for debt or damages against another in a court of law, and has obtained judgment for the whole or a part of the amount claimed. The rights of a judgment creditor are (1) an action for non-payment of the judgment debt, (2) power to issue execution, (3) power to issue a bankruptcy notice, and (4) committal of the debtor to prison under certain conditions.

Judgment Debtor.—The person against whom a judgment has been obtained, ordering him to pay a sum of money, such order not having been satisfied.

Kite.—Another name for an accommodation bill, that is, one which a person signs either as drawer, acceptor, or indorser, without receiving any consideration for the same.

Lac, or Lakh.—A Hindustani term signifying 100,000. A lac of rupees is 100,000 rupees, and with the rupee at 1s. 4d., as fixed in 1893, a lac is equal to £6,666 13s. 4d.

Latin Union.—The monetary Union established in 1865 between France, Belgium, Italy, and Switzerland, and afterwards joined by Greece. This Union was advantageous since it promoted the interchange of money, but the bimetallic principle had to be restricted. The basis for coinage is the French monetary unit, the franc.

Lease.—A document under seal by which the use of lands or tenements is granted for a definite period. The person who grants the use is the lessor, and the person to whom the grant is made is the lessee.

Ledger.—The principal book of account which contains a statement, both debtor and creditor, of all accounts, whether personal or impersonal. A complete statement of the financial position of a bank can be obtained from the ledgers, providing all the entries have been properly made. When entries are made from other books it is called "posting" the ledger.

Leeman's Act.—This was an Act of Parliament passed in 1867 whereby it was enacted that all contracts and agreements for the sale of shares in any banking company of the United Kingdom, exclusive of the Banks of England, Scotland, or Ireland, should be null and void unless the distinguishing numbers of such shares are set forth in the contracts or agreements, and, in the absence of such distinguishing numbers, the person or persons in whose name or names the shares are to be registered. It is the common practice of the Stock Exchange to ignore this Act completely, but it is quite illegal to do so.

Legal Tender.—Such money as a creditor is obliged to receive in satisfaction of a debt expressed in terms of money of the realm. By the Coinage Act of 1870 the following are declared to be legal tender in the United Kingdom: (1) gold coins to any amount, (2) silver coins up to two pounds, (3) bronze coins up to one shilling. Bank of England notes are a legal tender for any amount exceeding five pounds, and the Bank is compelled to pay such notes in gold on demand. Notes issued at any of the branches of the Bank are only payable where issued, and not at any other branch. The King in Council is empowered to proclaim that the gold coinage of colonial mints shall be legal tender throughout such parts of his dominions as may be specified in the proclamation. Treasury notes for £1 and 10s. were made legal tender for any amount in 1914.

Letter of Credit.—An order given by a banker or other person, at one place, to his agent in another place, authorising the latter to pay to a particular individual a certain sum of money. Owing in part to its vagueness a letter of credit is not a negotiable instrument, and therefore payment can only be legally demanded by the person who is named in it.

Letter of Indemnity.—A letter stating that the writer will guarantee the person to whom it is addressed from any loss or damage which may arise in consequence of some specific act undertaken for his benefit or on his behalf.

Lien.—A right to retain goods or securities until a debt is paid. It does not give a power of sale. A particular lien is a right which arises in connection with the goods as to which the debt arose. For example, a carrier can retain goods, until payment for carriage has been made. A general lien which arises from contract or custom is a right to detain goods or securities not only for debts incurred but also for a general balance of account. A banker's lien is of this character. A possessory lien does not give the possessor any right to deal with the goods, except such as belong to him, and he has no right of sale. There may be, however, a special agreement between the parties. A lien is lost or extinguished if the possessor agrees to give credit to the owner for the amount due, or if he agrees to accept some other security for the debt due to him.

Limitation, Statutes of.—Various statutes which bar the remedy of persons who through ignorance or neglect have failed to exercise their rights for stated periods. The term is six years for simple contract debts and twenty years for contracts under seal. A written acknowledgment of a debt, or any payment of a part of the principal or interest is sufficient to prevent it from becoming statute barred.

Liquid Assets.—This term is applied to the assets of a bank which are easily convertible into cash. Such assets include cash in hand, money at call, cash at the Bank of England, Government and other stocks easily realisable in the market, and bills of exchange of short date.

Lloyds' Bonds.—Instruments under seal whereby a company acknowledges its indebtedness as to a specified sum, and covenants to pay that amount on a certain day. Such bonds are issued by railway companies to contractors when there is some difficulty in raising a public loan. The bonds usually have coupons attached to them which are payable half yearly. The name is derived from the person who first devised this method of meeting liabilities.

Loans.—This term is used to express the various issues of stocks by governments or companies. The usual custom is to invite tenders for the same. When there is any probable difficulty in obtaining the sum required, a loan is underwritten, that is, various persons agree to take a portion of the stock if the general public do not apply for the same.

Locus Sigilli.—(L.S.) The place for the seal. It indicates the place or places upon a document where the seals of the various parties have to be affixed.

Lombard Street.—The name often applied to the Money Market. It represents the Bank of England, other large banks, bill-brokers, and large financial firms which control the floating capital in the market, and fix the rates for loans as well as for deposits.

Long-dated Paper.—The name given in the Money Market to bills of exchange which have more than three months to run.

Long Exchange.—Foreign bills of exchange, which have a longer currency than three months, are sold in the market at the long rate of exchange, which is in reality the short rate plus the interest to the date of the maturity of the bill.

Maker of Promissory Note.—The person who promises to pay a sum certain in money to or to the order of a specified person or to bearer. He occupies a position similar to that of the acceptor of a bill of exchange, and is the principal debtor bound upon the instrument.

Making-up Day.—The first day of the settlement on the Stock Exchange.

Making-up Price.—A Stock Exchange term used to express the price of stocks for all speculative transactions which are not paid for but carried over to the next settlement. The transaction is closed at each settling day and carried forward. The speculator has either to receive or to pay the difference in price plus the contango.

Margin.—As referring to operations under the "cover" system, this signifies the extreme point which a price must touch before the cover is exhausted. The word margin is sometimes used in the same sense as cover. It also signifies a discretion of so much per cent., or so much per share, allowed to work upon, over a named price, should it not be possible to do business at the price fixed.

Marginal Credit.—A document authorising the addressee to place a sum of money at the disposal of a person who must follow the instructions given in the margin of the authority.

Mark.—The unit of value of accounts and exchange in the German Empire, since the establishment of the new currency on the 1st January, 1876. A mark contains ·3982 grammes or 6·146 grains of gold, fineness 900 per mille, and is equal to English standard gold of the value of 11·747 pence. At par value 20·43 marks are equal to £1.

Marked Cheques.—Cheques which have been marked by the bankers upon whom they are drawn indicating that they are in order and will be paid in due course.

Marshalling Assets.—A term used in book-keeping to express the method of arranging assets in accordance with their liquid character. A bank's assets are marshalled as follows: cash in hand, cash at the Bank of England, money at call, Government and other securities, bills of exchange, loans, banking premises.

Memorandum of Association.—The document which sets forth the objects for which a joint stock company is formed.

Middle Price.—The middle price between the highest and the lowest quotation of a stock at which the dealer on the Stock Exchange will transact business. Generally speaking, the bargain is struck between the extreme prices of a stock.

Mint.—The establishment set up by the Government for the purpose of manufacturing coins to be circulated as legal tender for the payment of debts.

Mint Par of Exchange.—The mint par of exchange between any two countries means that certain amount of currency of the one which is equal to a certain amount in the currency of the other, supposing the currencies of both to be of the precise weight and purity fixed by their respective mints. The sovereign contains

113·001597 grains, or 7·322379 grammes, of fine gold, and this expressed in terms of the other currencies of the world is—in normal times—as follows, the value in pence of the unit of each country being also given :—

France	fcs.	25·221	franc	9·515d.
Denmark	kr.	18·159	krone	13·216
Germany	mks	20·429	mark	11·747
Holland	fl.	12·107	florin	19·823
Austria	kr.	24·02	krone	9·991
Portugal	mil.	4·504	milreis	53·284
Brazil	,,	8·901	,,	26·934
United States	$	4·867	dollar	49·316
Argentina	,,	5·044	peso	47·578
Uruguay	,,	4·705	,,	51·003
Chili	,,	5·335	,,	44·985
Chili	new $	13·213d.	,,	18·163

The par of exchange for France includes the Latin Union ; Denmark includes Sweden and Norway. The mint pars are given for Portugal, Brazil, Argentina, and Chili, but actual exchanges are in terms of more or less inconvertible paper.

Mint Price of Bullion.—With free mints the price at which gold or silver is received for coinage. The difference between the mint price and that of the Bank of England, viz., 1½d. per ounce, is equal to 20 days' interest at 3 per cent.

Mohur.—An Indian token gold coin equal to 15 standard silver rupees. It weighs 180 grains, the fineness being 916·6 per mille, and the value is equal to £1 9s. 2¼d.

Money Market.—A term applied to the place where all dealings in connection with floating capital are effected. There is no actual market, since it consists of various banks, including the Bank of England, discount houses, and large financial firms, which fix the price of loans, deposits, and the rate of discount for bills of exchange.

Mortgage.—A mortgage is a conveyance or disposition of real or personal property by a borrower, called the mortgagor, in favour of a lender, called the mortgagee, by way of security for the repayment of money borrowed together with interest.

N-A.—No advice.

N-a.—Non-acceptance.

N-E.—No effects.

N-S.—Not sufficient.

These are different letters sometimes found on cheques or bills of exchange for the purpose of stating the reasons why payment of the same is refused.

National Debt.—The English National Debt dates from the reign of William III., when £84,888 6s. 9d. was borrowed on tallies in anticipation of duties on French linens. The debt now consists of two parts, viz., funded and unfunded, the latter being a floating debt which can be repaid at short notice.

Need, In Case of.—A memorandum on a bill stating where and by whom it will be paid if not met at maturity by the acceptor. This is done for the purpose of protecting a person who is a party to the bill, either as acceptor or indorser.

Negotiable Instrument.—Lord Blackburn's definition is as follows : " When an instrument is by the custom of trade transferable like cash on delivery, and is also capable of being sued upon by the person holding it *pro tempore*, then it is entitled to the name of negotiable instrument, and the property in it passes to a *bonâ fide* transferee for value, though the transfer may not have taken place in market overt." The principal negotiable instruments are bills, promissory notes, bank notes, Treasury bills, foreign bonds, bearer debentures, and scrip. Postal orders are expressly made not negotiable.

Notary Public.—An official who has authority to certify deeds and other documents. His principal duties are to attest, to copy, and to translate documents in order to render them valid when sent abroad, and also to present dishonoured bills of exchange and cheques, and to note their non-acceptance or non-payment, and also to protest them if required to do so.

Not Negotiable.—These words are sometimes added to the crossing of a cheque for the purpose of further limiting the rights of a holder to deal with it. No person can have a greater right to a " not negotiable " cheque than was possessed by his immediate transferor. The section of the Bills of Exchange Act relating to such cheques is as follows : " Where a person takes a crossed cheque which bears on it the words " not negotiable " he shall not have and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had."

Notice of Dishonour.—When acceptance or payment of a bill of exchange is refused, the bill is dishonoured, and it is necessary for notice of the dishonour to be given to all parties to the bill who may be liable upon it.

Noting of Bills.—This consists of a note made by a notary on the day of dishonour of a bill of exchange, which consists of the notary's initials, the date, the charges, and a mark referring to the notary's register. It has no direct legal effect, although the expenses incurred may be recovered. It is the common practice to attach a slip to the bill stating the reasons why it is returned. If foreign bills are noted on the day of non-payment they can be protested subsequently.

%.—This is an abbreviation for per cent.

‰.—This is an abbreviation for per mille or thousands.

O-S.—Signifies old style, and refers to the old calendar as still used in Russia, which is thirteen days behind that of the rest of Europe. Russian bills payable after date in England usually bear both the eastern and the western date, the maturity being calculated according to the western date.

Obligation.—A bond under seal with a money penalty attached in case of default.

Open Cheque.—A cheque not crossed is generally so called.

Order.—A term used in connection with bills of exchange and cheques, and denotes that the person in whose favour the bill or cheque is payable can transfer the same to another person by indorsing and delivering it.

Overnight Money.—Money borrowed by bill brokers from banks from one afternoon until the following morning, for the purpose of discounting bills. These are the shortest of all loans granted by the banks.

Par.—The nominal value of stocks or shares. If any particular stock or shares can be sold in the market at their nominal value they are said to be " at par."

Par of Exchange.—This term denotes the exact equivalent of a foreign currency expressed in terms of the sovereign. Thus, the par of exchange between England and France is 25·22½, being the equivalent in francs of a sovereign.

Pay Day.—The last day of the account on the Stock Exchange when payment must be made for all stocks and shares bought or sold.

Payee.—A person to whom or to whose order the amount specified in a bill of exchange or a cheque is payable.

Paying-in Slip.—The document which is used for the purpose of giving particulars of the coin, bank notes, cheques, bills, or other credits which are paid into a bank on account of a customer.

Payment in due course.—This term in connection with bills of exchange is thus defined in sect. 59 of the Bills of Exchange Act, 1882: "It means payment made at or after the maturity of the bill to the holder thereof in good faith and without notice that his title to the bill is defective."

Payment for Honour.—When a bill has been noted or protested for non-payment, any person may intervene and pay it *supra protest* for the honour of any person who is liable on the bill.

Personalty.—This designates all movable property, such as money, goods, furniture, other chattels, and leasehold interests in land.

Peseta.—The unit of value in Spain, and nearly equivalent to the French franc, its value being about 9½d. It is divided into 100 parts, called centimos.

Peso.—The unit of value in most of the South American States, except Brazil. Its current value is about the same as that of the French five-franc piece, viz., 3s. 11½d.

Petty Cash Book.—A book used for the purpose of recording payments of small disbursements, such as stamps, porterage, cleaning, and other similar small charges.

Pfennig.—A small copper coin used in Germany, the hundredth part of a mark in value.

Piastre.—A coin used in the Levant for currency purposes. The Turkish piastre is worth a fraction more than 2d. in English money, and the Egyptian piastre about 2½d. A piastre is the one-hundredth part of the Turkish pound gold medjidie. It is a similar unit to the Egyptian pound. Turkish silver coins of 20 piastres form part of the currency of the Ottoman Empire, and have a fineness of 830 per mille. The English equivalent value of the Turkish medjidie is 18s. 0¾d., and of the Egyptian pound 20s 5d.

Pie.—A unit of value in India, being the 192nd part of a rupee. The copper coin of this name weighs 333 grains.

Post Dated.—Sometimes cheques are dated after the true time of their issue. The practice of post-dating, however, is an infringement of the stamp laws, so that if a holder attempts to negotiate a cheque before the date named, the drawer renders himself liable to penalties. A post-dated cheque may, however, be put in evidence in the course of an action at law for collateral purposes.

Post Obit Bond.—A bond by which a person receiving money binds himself to repay the same, generally with interest, after the death of an individual from whom he expects to inherit property.

Pound.—A weight of twelve ounces troy (5,760 grains) or sixteen ounces avoirdupois (7,000 grains). It also represents the British monetary unit, viz., the sovereign, which weighs 123·27447 grains troy.

Premium.—The amount paid for a stock over and above its par value.

Present Value.—The immediate value of a sum of money payable at some future date, discount being deducted for the payment of the principal sum before it becomes due.

Presentation.—The act of presenting a bill of exchange or a cheque for acceptance or for payment. Certain regulations are set out in the Bills of Exchange Act as to what constitute a legal presentation.

Proceeds.—The actual amount received after a bill of exchange or other security has been sold, less charges.

Procuration.—An authority given by one person to another to sign bills, cheques, etc., on his behalf, which can be revoked at any time by written notice. It is usual to sign "per pro." or "p.p." when the authority has been given.

Profit and Loss.—The losses and gains of any commercial undertaking, either private or joint stock. The net gains derived from a company's trading is divided amongst the shareholders in the shape of a dividend, which must be paid out of profits, and not out of capital. In stating a profit and loss account it is usual to place the profit on the right or creditor side, and the loss on the left or debtor side of such account.

Pro Forma.—As a matter of form. *Pro formâ* documents are drawn up after a prescribed model to satisfy some legal requirement or some trading custom.

Promissory Note.—An unconditional promise in writing made by one person to another signed by the maker, engaging to pay on demand or at a fixed or determinable future time a sum certain in money to, or to the order of, a specified person or to bearer.

Protest.—A formal certificate drawn up by a notary to attest some fact such as the dishonour of a bill of exchange. On the continent all bills must be protested. If dishonoured in the United Kingdom a foreign bill must be protested in order to preserve to the holders the right of recourse against the drawer and the indorser. The Bills of Exchange Act states that if a notary is not available, a householder in the presence of two witnesses may give the necessary certificate of protest. Protest is required as a preliminary to acceptance or payment for honour of any dishonoured foreign bill.

Proxy.—A document which appoints one person to act for another at a meeting or for some special purpose. It requires an impressed penny stamp.

Qualified Acceptance.—An intimation by the drawee of his qualified assent to the order of the drawer of a bill of exchange. It may be either conditional, that is, the payment depends upon the fulfilment of a condition stated in the bill ; partial, that is, a part only of the bill is to be paid ; local, that is, making the bill payable at a particular place and there only ; qualified as to time, as where a bill drawn for three months is accepted for six ; and an acceptance by some and not all of the drawees, when there are several. The holder of a bill may refuse to take a qualified acceptance, and any holder other than the drawer, taking such an acceptance, must immediately give notice of the fact to prior holders; failing such notice they are discharged from liability on the bill.

Rebate.—An allowance of discount made on retiring a bill of exchange, the usual rate allowed being ½ per cent. above the deposit rate. Rebate is shown in the half-yearly accounts of a bank for discount received on bills of exchange not matured. It is usual for this purpose to take the average rate of discount during the previous three or six months, or the actual amount received on bills discounted may be taken.

Recourse.—The right of the holder of a bill of exchange to demand payment of the same from some other person than the acceptor. It sometimes occurs that bills are discounted without recourse (san recours), but it is usual to sell coupons and foreign bills with recourse in case of non-payment.

Re-Discount.—When bills of exchange have been discounted they can be re-discounted. This was at one time a common practice amongst country banks when more capital was required.

Re-Exchange.—The loss resulting from the dishonour of a bill in a country different from that in which it was drawn or indorsed. The re-exchange is ascertained by proof of the sum for which a bill at sight (drawn at the time and place of dishonour at the existing rate of exchange, or the place where the party sought to be charged resides), must be drawn in order to realise at the place of dishonour the amount of the dishonoured bill, and the expenses consequent on its dishonour. The expenses consequent on dishonour are the expenses of protest, postage, customary commission, brokerage, and the cost of the stamp where a re-draft is necessary.

Rei or Ree.—The unit of account in Portugal and Brazil, 1,000 reis being called a milreis.

R/D.—Refer to drawer. These letters are generally written on bills or cheques when they are returned for want of funds.

Registered Bonds.—Bonds which are registered in the books of a company as a protection against loss.

Registered Stock.—Stock which is registered in the name of a stockbroker in books kept by banks or at the offices of a company. It is usual to issue a certificate stating the amount of stock held.

Registered stock differs from inscribed stock, because a certificate is issued for the former and most transfers are made by deed, whereas in the case of the latter a stock receipt is issued, but transfers can be made without its production. Personal attendance of the stockholder is required to transfer inscribed stock unless a power of attorney is given.

Reichsmark.—This is another name for the mark of the German Empire.

Remittance.—A term used by banks when coin, bank notes, drafts, or cheques are sent for collection.

Reserve Liability.—That part of the capital of a banking company which is not capable of being called up except for the purposes of winding up. See Companies Act, 1879, sect. 5.

Restrictive Indorsement.—An indorsement sometimes placed on a bill which limits the further negotiability of the instrument. For example, " Pay D only " is a restrictive indorsement. The indorsee of such a bill has the right to receive payment and to sue any party that his indorser could have sued, but a restrictive indorsement gives him no power to transfer his rights as indorsee unless he is expressly authorised to do so.

Retire a Bill.—To take up a bill before maturity. When this is done the interest up to the due date is paid by the person who withdraws it from circulation. If a bill is retired by the acceptor it is discharged, and all the remedies on the bill are extinguished, but if it is retired by any other person who is primarily liable upon it, all the remedies remain in force.

Returns.—The name given to bills and cheques which are presented for payment through the Clearing House, and returned unpaid. The term is also used in connection with the various statements sent from the different branches of a bank to its head office.

Revenue Account.—This term is used by large public companies for the purpose of showing their profits derived from the undertaking. It is similar to the profit and loss account of a trading company. Such an account is distinguished from the capital account, which gives a statement of capital subscribed by the proprietors. A part of the balance of revenue account is usually paid as dividends.

Rix Daler.—A Dutch silver coin of the same weight, 25 grammes or 385·8 grains, as the five-franc piece, but the fineness is 945 instead of 900 per mille. This coin is current in the Netherlands and is equal to 2½ gulden pieces. It circulates mainly in the Dutch colonies.

Rupee.—The silver coin of India which weighs 180 grains, and contains 165 grains of fine silver, eleven-twelfths fine. In 1893 the Indian mints were closed to the coinage of silver, and British gold coins taken at the rate of 15 rupees to the £. The coinage of rupeees by the Government is at the ratio of 16d. per rupee.

Sans Compte de Retour.—A term meaning that in the event of non-payment of a bill the holder may draw a bill on the previous holder for the amount and charges.

Sans Recours.—A French term meaning "without recourse," and denoting that the indorser disclaims any personal liability in case of non-payment.

Sans Frais.—Without expense. An expression sometimes used on a foreign bill, which means that in case of non-payment no expenses are to be incurred.

Scrip.—The provisional certificate issued when new shares or stock are issued to the public. The certificate must bear an impressed sixpenny stamp.

Security.—A written or printed document which secures to the holder his right to any property. The principal securities which are lodged with a bank as securities against loans are certificates, bonds, deeds, bills of lading, dock warrants, bills of exchange, and scrip.

Seigniorage or Seignorage.—The charge made for the cost of coining gold and silver coins. Prior to 1666 a charge was made in England at the mint for coining gold, but since that date the coinage has been free. Some nations, however, still retain the charge.

Settling Day.—The third or last day of the account on the Stock Exchange, when payment for stock bought or sold must be made.

Shareholder.—A person who holds shares in any registered company.

Shipping Documents.—These are documents which are sometimes attached to foreign bills of exchange, and include the invoice of the goods shipped, together with the policy of insurance which insures them during transit, and also the complete set of bills of lading.

Short Bills.—Bills of exchange which have less than ten days to run, demand or sight bills, or bills drawn for any period when within ten days of their maturity. When such bills are paid into a bank for the purpose of collection just before they become due, it is a custom to "enter them short," that is, not to credit them at once to the customer, but to wait until they are paid. Short bills, in the event of the bankruptcy of the banker between their deposit and their maturity, do not pass to the trustee in bankruptcy under the reputed ownership clause. They are treated as goods in the hands of a factor. (See pp. 179, 180.)

Short Exchange.—Drafts or cheques at sight or payable within a day or two. When such bills are sold in the market there is no interest to be deducted from the price of the bill.

Shut for Dividend.—When the transfer books of a company are closed for the purpose of preparing warrants for the payment of dividend, a notification is given that no transfer can be registered until the dividend has been paid, the time allowed being generally from a fortnight to a month.

Sight Bills.—Bills at sight are payable on demand, but those after sight require acceptance.

Sinking Fund.—A fund formed by the investment of annual savings for the purpose of redeeming debt.

Soft Money.—A term often applied to bank notes in the United States.

Sola.—A bill of exchange of which there is but one copy in circulation, as distinct from a bill which is drawn in a set of two or three.

Sol.—The standard of value in Peru. It is a silver coin weighing 25 grammes of silver, of a fineness of 900 per mille, the equivalent of the peso or dollar of Chili and of the five-franc piece.

Sou.—The French bronze coin, the twentieth part of a franc equal in value to about one halfpenny.

Sovereign.—The British gold coin which is the standard of this country, and which weighs 123·27447 grains troy, eleven-twelfths fine.

Special Indorsement.—An indorsement on a bill of exchange stating the name of the person to whom the instrument has been transferred. A bill of exchange, when specially indorsed, is payable to the indorsee, and can only be negotiated by his indorsement. If a special indorsement follows an indorsement in blank, the former controls the effect of the latter.

Specie.—The name applied to the gold and silver coins used in any country, as distinct from bullion (*q.v.*).

Specie Payments.—A term applied to payments in gold as distinct from payments in an inconvertible paper currency.

Specie Points.—A term applied in the foreign exchanges to a price in a foreign currency when it is more profitable to export gold than to purchase bills for the settling of international indebtedness.

Stale Cheque.—A cheque which has not been presented for payment within a reasonable period. A person who takes such a cheque does so at his own risk. In case of the failure of the bank upon which it is drawn the drawer is generally discharged by the delay in the presentation, although the holder can prove in the bankruptcy against the estate of the bank.

Standing Order.—A request to a bank to make periodical payments for the customer, such as club subscriptions, fire and life insurance premiums, or other annual payments.

Stiver.—A silver coin of Holland, now superseded by the five-cent piece. The florin is equal to 20 stivers or 100 cents.

Stock Exchange.—An institution formed for the purpose of dealing in stocks and shares. On the London Stock Exchange the members are divided into jobbers and brokers; the former deal in the stocks, whereas the latter buy from or sell to the jobbers on behalf of their clients. The scale of commission which a broker is entitled to charge his client is as follows :

British and Indian Government securities.. 2s. 6d. per cent.
Colonial Corporation and foreign stocks.... 5s. per cent.
Home Railway stocks.......... 5s. to 10s. per cent.
American and foreign railway securities..............
5s. to 10s. per cent.

Shares in mines, industrial companies, etc.,

Under £1	nominal value —	3d.	per share.
,, £2	,,	6d.	,,
,, £5	,,	9d.	,,
,, £10	,,	1s.	,,

and 6d. per share for every £5 per share in excess.

Stock in Trade.—The goods in stock, fittings, furniture, machinery, tools, and other appliances are usually called the stock-in-trade for carrying on a business.

Stock Receipt.—A receipt given by the seller of inscribed stock, on receiving the consideration money from the purchaser, and after having assigned the stock by signing the transfer book at the bank, which enables the purchaser to have the stock registered in his own name.

Stop.—An order given by a customer to his banker requesting him not to make payment of a cheque or a bill of exchange.

Stoppage in Transitu.—The right of a seller of goods to retake them whilst they are on their way to, and have not come into the possession of a purchaser who has become insolvent.

Surety.—A person who is bound by an instrument in writing that he will be answerable for the debts of another person if they are not paid when due, or that he will be responsible for the performance of some duty undertaken by another.

Surrender Value.—A term used in connection with life policies which signifies the cash price payable to the holder when they are surrendered.

Suspense Account.—An impersonal account in the books of a bank or a commercial house for the purpose of crediting or debiting amounts which cannot be applied at once to the regular accounts. It is also used in banks for the purpose of deducting charges from cheques and bills sent for collection.

Talon.—A certificate attached to a bond, which enables the holder to obtain a fresh set of coupons when those attached to the bond have been exhausted.

Tel Quel Rate.—The rate of exchange at which a bill is sold. A net price is given to the seller, which includes the difference for interest, etc.

Telegraphic Transfers.—A mode of effecting international payments. Messages are sent by telegraph, ordering the transfer of specified amounts from one person to another by means of a debit or a credit of their respective accounts. As a rule it is cheaper to buy bills than to obtain a telegraphic transfer, but when payments have to be made at once the system is taken advantage of. It implies, of course, that the sender has a balance in the hands of his agent abroad. Telegraphic transfers are principally used between London, New York, and India. With regard to India they are of particular value as they defer the fixing of the rate of exchange to the exact moment when the payment has to be effected. There is a daily rate quoted in the Money Market reports for transferring money from one country to another.

Teller.—The cashier of a bank who receives credits or pays cheques presented for payment.

Term of a Bill.—The time for whicha bill of exchange is drawn.

Terminable Annuities.—Annuities granted by the Government or life offices for a term of years, on present payment of a fixed sum of money. The amount paid is calculated on the basis of the average duration of life which is obtained from actuarial tables.

Ticket Day.—The name of the day preceding the fortnightly settling day on the London Stock Exchange. It is a term peculiar to the London Exchange. Tickets are passed between brokers and jobbers by means of which the amount of stocks and shares which have to be delivered or received are recorded. The names of the buyers are declared and the differences to be paid on the following day are stated.

Token Money.—Coins which are in circulation but which are not of the market value named on their faces. For example, silver and bronze coins are far less valuable than they are represented to be. In the case of silver the price is about 2s. 3d. per ounce, but an ounce of silver is coined into 5s. 6d. Hence a shilling is really worth something between 4d. and 5d. For this reason token money never circulates in any country except that by which it is issued, and there is always a limitation as to its being a legal tender. In England silver is not legal tender beyond forty shillings, and bronze not beyond twelve pence.

Transfer Days.—Certain fixed days at the Bank of England and other banks when transfers of stock are made free of charge. If a transfer is made at any other time a fee has to be paid.

Transfer Certified.—A transfer which is certified by a company or a bank stating that the certificate of the stock has been lodged for the purpose of transferring the same.

Transferee.—The person to whom a bill of exchange or stock is transferred.

Transferor.—The person who transfers a bill of exchange or stock to another person. The transferor of a bill of exchange by mere delivery, that is, without indorsing it, warrants to his immediate transferee being a holder for value that the bill is what it purports to be, that he has a right to transfer it, and that at the time of transfer he is not aware of any fact which renders it valueless.

Treasury Bills.—Bills issued by the Government and payable at three, six, or twelve months after date. Such bills form a part of the floating debt of the country. Tenders are received for the same, and they are issued at a discount which represents the interest received by the person who applies for them.

Trusts.—A combination of manufacturing firms, formed for the purpose of creating a monopoly or of regulating the prices of commodities in order to prevent ruinous competition. The advantages of the amalgamation of large firms have been stated to be the economising of production by means of labour-saving machinery and better methods of transport.

Turn of the Market.—A term used on the Stock Exchange indicating the difference between the buying and the selling prices of stocks. It indicates the jobber's profit on the transaction.

Turn Over.—The amount of money received during a given period of time through sales of any commodity. In a bank the turnover is the total amount of cheques, notes, coins, etc., which are received or paid during the half year for any customer. Sometimes a commission is charged upon this amount.

Underwriter.—The name given to a class of persons of Lloyd's who insure the safety of ships and their cargoes. The underwriters affix their signatures to the marine policy, each one for the amount he intends to risk on the transaction. The name is also given to those persons who undertake to apply for shares in a new company in case the general public do not come forward in sufficient numbers to allow of its commencing business.

Unfunded Debt.—This consists of money borrowed for short periods by the Government, to be paid at certain fixed dates. Treasury bills are an example of unfunded or floating debt.

Usance.—The period allowed by usage for the currency of bills of exchange between various countries, and originally denoting the time which a vessel took to reach its destination. Thus, the usance between London and New York is sixty days. The length of the usances has not been changed in spite of the improved and quickened means of transit.

Value in Account.—A term used in drawing bills of exchange when they are for services rendered, or when there is a balance remaining in favour of the drawer.

Value Received.—The words used on bills of exchange to indicate that the drawee, who becomes the acceptor, has received consideration from the drawer. Such words are, however, quite unnecessary since consideration is always presumed in the case of bills of exchange.

Vendor.—The seller of any commodity.

Vendor's Shares.—Shares which are taken as a cash payment on conversion of a trading firm into a limited company in consideration of the value of goodwill, stock, fixtures, etc. Such shares may rank *pari passu* with ordinary shares for dividends, or be entitled to the same when a certain fixed dividend has been paid to the ordinary shareholders.

Waiver.—The renunciation of a right.

Waste Book.—A book used for the purpose of making entries of business transactions, whether of sales or purchases, prior to posting the same in the journal. The waste book of a bank is utilised for the purpose of sub-dividing the cash articles received at the counter; the total amount of the credit is entered into the cash book, and subsequently into the waste book, where the various items are entered under different headings, such as coin, bank notes, cheques, etc.

Watering of Stock.—An expression used to indicate the issue of an additional amount of stock by a company without any additional provision being made to pay the interest on the same, or that the nominal value of securities has been increased without any corresponding payment in cash.

Weight Note.—A document issued by wharfingers giving the gross weight, tare, and net weights, the marks, numbers, and dates of entry of goods imported and deposited in the warehouse pending sale.

Winding Up.—A term applied to the proceedings by which a joint stock company ceases to exist, and puts an end to its business.

Without Recourse.—A phrase sometimes found in connection with bills of exchange which means that the indorsee has no claim against the indorser should the bill be unpaid at maturity. The words are used when the indorser has no personal interest in the bill, and has only acted as agent for another person. It is usual to use the words " sans recours," which are the French equivalent for " without recourse."

Writ.—A document issued by the High Court of Justice commanding the person therein named to attend at a certain place or to perform a certain act under a penalty.

Years' Purchase.—An expression used to indicate the value of property based upon a yearly rental. For example, if a house rented at £50 a year is sold for £1,000, this is equal to 20 years' purchase.

Yen.—The unit of value in Japan and represented by gold and silver coins. The value of the 20 gold yen piece is £2 0s. 11¾d., which gives the circulating value of the silver token yen coin of about 2s. 0½d.

WEIGHT OF GOLD AND SILVER COINS AND THEIR ENGLISH EQUIVALENT VALUE.

Name of Country.	Name of Coin.	Pure Gold in 1,000 parts.	Pure Silver in 1,000 parts.	Grains Troy. Total Weight.	Grains Troy. Weight of Pure Metal.	Proportion of Silver to 1 of Gold.	Approximate English Equivalent Value.	Notes.
1. Great Britain	sovereign	916·667		123·2744	113·0016	14·287		
	shilling		925·	87·2727	80·72937			
2. France	20 franc	900·		99·56334	89·60701	15·5	15 10¼	
	1 ,,		900·	77·0417	69·4455		9½	
3. Germany	20 marks	900·		122·917896	110·626801	13·95	19 7	
	1 ,,		900·	85·7359	77·1617		11½	
4. Austria	20 crowns	900·		104·551	92·935	13·69	16 8	
	1 crown		835·	77·0417	64·329			
	8 florins	900·		99·563349	89·60701		15 10¼	
	1 ,,		900·	190·5231	171·4703	15·3	1 11½	
5. Holland	10 guilders	983·		103·84428	93·45985	15·6	16 8	
	1 ,,		945·	154·3235	145·8357		1 8	
6. Portugal	5 milreis	916·667		136·8460	125·4425	14·09	1 1 9¼	
	5 testoons		916·667	192·9043	176·8284		2 2½	
7. Denmark[3]	20 crowns	900·		138·2831	124·45418	14·88	1 2 6	
	2 ,,		800·	231·4852	185·1882		2 3	
8. Russia	5 roubles	916·667		101·0000	92·57403		15 10½	
	1 ,,		868·056	308·5806	277·7221	15·	3 2	
9. India	15 rupees	916·667		180·0000	165·0000		1 0 0	
	1 ,,		916·667	180·0000	165·0000	15·	1 4	
10. Turkey	20 piastres		830·	371·2313	308·1168		3 6½	
	pound	916·667		111·3598	102·0804	15·1	18 0¾	
11. Egypt	pound	875·		131·1749	114·7781	15·	1 0 3½	
	10 piastres		833·33	216·052	180·036		2 1	
12. Shanghai	tael silver				513·0607			
13. Japan	10 yen		900·	128·6025	115·7423		1 0 5	
	50 sen		800·	208·	182·	16·173	1 0¼	
14. Philippine Islands	1 peso	875·		26·0961	22·83705			
	dollar		900·	400·6253	360·5614	15·79		

15. Siam	tical		910·	234·2711	206·2850				
16. Persia	1 thoman	990·		53·49032	52·96536				
	1 kran		990·	70·7740	63·0316	13·37			
17. United States	5 dollars	900·		129·0000	116·09985	16·	1	0	7½
	1 ,,		900·	412·5000	371·2514			4	1½
18. Newfoundland ..	2 ,,	916·667		51·35886	47·07895	14·3			
	50 cents		925·	181·8234	168·1871				
19. Argentina[1]	5 dollars	900·		124·5415	112·00875	15·5	1	0	5
	1 ,,		900·	385·2087	347·2278			4	1
20. Chili	5 pesos	900·		117·6941	105·92533	16·39		18	9
	1 ,,		900·	385·2087	347·2278			3	9
21. Brazil	milreis	916·667		138·34793	126·81996	14·22	1	2	5
	2 ,,		916·667	393·5249	360·7311			4	5
22. Uruguay	5 peso	917·		130·9435	120·0750	14·4	1	1	0
	1 ,,		900·	385·2087	347·2278	15·5		3	9
23. Peru[2]	10 sols			248·90837	224·01753		1	19	8
	1 ,,		900·	385·2087	347·2278	15·5		3	1½
24. Mexico	10 pesos	875·		417·6657	365·45753		1	0	0
	1 dollar		902·778	417·6657	377·0586			2	0

NOTES.

In order to ascertain the number of grammes in a coin divide grains Troy by 15·43235.

1. The gold coin of the Argentine Republic is the Argentino which weighs 124·44 grains, the English equivalent would be 19s. 10d.

2. In Peru the libra of 10 sols weighs 123·257 grains, and would therefore be of the same value as the sovereign. In Chili the doubloon weighs 117·70 grains, the value being 18s. 9d.

In Java the gold coin is the ducat, which weighs 53·92 grains, the value being 9s.; the silver rixdaler of 2½ florins weighs 385·8 grains, the value is about 4s. 2d.

The value of coins in silver using countries is dependent upon the price of silver.

3. The coinage of Denmark, Norway, and Sweden is identical.

In Tunis the 10 piastre piece weighs 30·09 grains, and is valued at 4s. 9½d., the silver piastre weighs 46·7 grains.

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(Reference is not made in the Index to the terms defined in the Glossary.)

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